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Time's up, Mr Musharraf

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On the cover
No longer the potential solution, General Pervez Musharraf has become a big part of Pakistan's problem: leader

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Politics this week

Nov 8th 2007
From The Economist print edition

Citing the threat of Islamist extremism and the obstructive behaviour of the judiciary, General Pervez Musharraf, **Pakistan's** army chief, declared a state of emergency tantamount to martial law. Opponents said he feared the Supreme Court would rule that his re-election as president last month was illegitimate. Hundreds of politicians, lawyers and activists were detained and private television-news channels were closed. After earlier suggestions that elections might be postponed, General Musharraf on November 8th was said to have promised they would be held by February 15th. See article

AFP

Scores of people were killed in a suicide-bombing in Baghlan province in northern **Afghanistan**. The dead included schoolchildren and six members of parliament visiting from Kabul for the opening of a sugar mill. The Taliban denied responsibility.

Sri Lanka's rebel Tamil Tigers suffered a setback with the death in an air-raid of S.P. Tamilselvan, their political commissar. Meanwhile, the Sri Lankan government was embarrassed by the detention on immigration charges in Britain of the former Tiger commander known as Colonel Karuna, who since breaking with the Tigers in 2004 has become a government ally. See article

The ruling junta in **Myanmar** rejected a proposal by the new United Nations' envoy, Ibrahim Gambari, to mediate in talks with Aung San Suu Kyi, the detained opposition leader. The junta also said it would not renew the visa of the UN's co-ordinator in Myanmar, Charles Petrie, following a statement he made mentioning anti-government protests. See article

Inundated

Reuters

In the worst natural disaster in Mexico for two decades, **floods** forced some 800,000 people from their homes in Tabasco state. At least 16 people were feared dead in a landslide in neighbouring Chiapas. See article

Álvaro Colom, a businessman, was elected as **Guatemala's** next president. He defeated a former army general in a run-off ballot. See article

In **Trinidad and Tobago**, whose gas-rich economy is booming, the ruling People's National Movement of the prime minister, Patrick Manning, increased its majority in a general election.

A fire started by inmates after a failed escape bid killed 33 prisoners at a jail in Santiago del Estero in **Argentina**.

Overturning objections from Iran, Interpol approved the issuing of arrest warrants for five Iranians and a Lebanese man in connection with the bombing of a Jewish centre in **Buenos Aires** in 1994, in which 85 people were killed.

Georgian rage

Days of protests in **Georgia** turned nasty when police broke up demonstrations using tear-gas and water cannon. An opposition television station was taken off the air and a state of emergency was declared. The opposition wants President Mikheil Saakashvili to call elections; he blames Russia for the unrest. See article

After a brutal crime, **Italy** passed a decree authorising the expulsion of any Romanian immigrant who is

deemed to be a danger to public safety. Italian ministers said European Union rules on free movement were inadequate to cope with Italy's huge influx of migrants from Romania, which joined the EU in January. See article

Italian police captured Salvatore Lo Piccolo, reportedly the main boss of the **Sicilian Mafia** since last year's arrest of Bernardo Provenzano. See article

At least eight people were killed in a mass shooting at a school in southern **Finland**. The shooting came a few days after a video was posted on YouTube by the perpetrator predicting the massacre.

It was a busy week for **European leaders in America**. France's Nicolas Sarkozy met George Bush and won rapturous applause for an address to Congress, in which he called for a “strong dollar” policy. Germany's Angela Merkel travelled to Texas to meet Mr Bush at his ranch. And Turkey's Recep Tayyip Erdogan secured a promise from Mr Bush of tougher action against fighters of the Kurdistan Workers' Party (PKK) in northern Iraq. See article

AFP

Meanwhile

Leaders of countries neighbouring **Iraq** met in Istanbul but failed to find new ways of bringing peace to that country. Instead, they focused mainly on how to dissuade **Turkey** from invading Iraq to deter PKK guerrillas from attacking Turkish troops in Turkey. See article

Kenya's National Commission on Human Rights blamed the police for the execution-style killings, earlier this year, of 500-odd members of the Mungiki, a sect drawn from the Kikuyu ethnic group. Mungiki gangs had terrorised people going in and out of Nairobi, the capital, for years. The police deny responsibility. See article

Ten Europeans who worked for a French charity, Zoe's Ark, were charged in **Chad** with trying to airlift 103 children illegally out of the country to France, where they claim they were taking the children for adoption. Four Chadians were charged with complicity.

Close allies of **South Africa's** president, Thabo Mbeki, bid to take over one of the country's largest media groups, Johncom, which owns several newspapers that have sharply criticised the government, such as the *Sunday Times*. See article

Now on to the Senate floor

The Senate Judiciary Committee endorsed Michael Mukasey as America's next **attorney-general**. His nomination had run into trouble over his equivocation as to whether waterboarding counts as torture, but two senior Democrats on the committee changed tack and backed him.

The Democrats did well in a smattering of **state and local elections**, winning Kentucky's election for governor and control of Virginia's state senate. With less than a year to go before the general election, the results could spell trouble for the Republicans. See article

Rudy Giuliani's bid for the presidency received a big boost with an endorsement from Pat Robertson, a prominent televangelist. Mr Giuliani has been attacked by many on the right for not being willing to ban abortion.

Another Republican candidate received a fillip—to his coffers. **Ron Paul** raised $4.3m in just one day of online fundraising, thought to be a record. The anti-war libertarian thinks he is placed to do well in New Hampshire's primary.

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Business this week

Nov 8th 2007
From The Economist print edition

Chuck Prince resigned as **Citigroup's** chairman and chief executive after America's biggest bank announced additional write-downs of up to $11 billion stemming from subprime mortgages. Robert Rubin, a former treasury secretary, was named as Citi's new chairman. Investors, already jittery at the departure of Mr Prince, were rattled further when **Morgan Stanley** said it had lost $3.7 billion on investments linked to subprime-mortgage debt. **AIG**, the world's biggest insurance company, saw its quarterly net profit drop by 27% compared with a year ago, and booked write-downs on mortgage-related assets. See article

General Motors reported a $39 billion net loss for the third quarter, mainly because of a write-down of deferred tax credits. “Ongoing challenges” in America's mortgage market also hurt its financial-services unit. Without the charge, GM made an adjusted net loss of $1.6 billion. Its share price slid.

Ford reached a tentative agreement on a new contract with the **United Auto Workers**, the last of Detroit's big three carmakers to do so. Ford is expected to make further job cuts once the document has been ratified by UAW members, which could take several weeks. **Chrysler** said on November 1st that it would shed up to 10,000 jobs after confirmation that workers there had voted to support their new contract.

BHP Billiton confirmed it had made a takeover approach to **Rio Tinto**, its smaller rival, but had been rebuffed. Rumoured for months, a merger would create a mining behemoth.

How much is it really worth?

PetroChina's share price soared on Shanghai's feverish stockmarket following the offering of just over 2% of its shares there (it is also listed in Hong Kong and New York). Much was made of the notion that on the basis of its Shanghai share price PetroChina had become the world's most valuable company: at one point it was worth $1 trillion—equal to Exxon Mobil, Shell and BP combined. See article

PetroChina wasn't the only Chinese company to surpass stockmarket expectations. **Alibaba**, an internet company, saw its share price almost triple following its initial public offering in Hong Kong.

Wireless Android

Google took the wraps off its long-awaited strategy to enter the mobile-phone industry. Termed “Android”, Google's plan is based around software that makes the development of applications for differing handsets much easier; 33 manufacturers and carriers have signed up to the initiative and the first devices based on the new Google software are expected next year. Some consumers expressed disappointment, however, that the company did not unveil a “Google phone”, the subject of much recent hype. See article

TomTom, the leading maker of satellite-navigation devices, raised its offer for **Tele Atlas** by 41%, to *euro*2.9 billion ($4.2 billion), and said it would take a 28% stake in its Dutch compatriot. A merger between the two has been mooted since the summer, but Garmin, an American competitor, has also bid for Tele Atlas.

IAC/InterActiveCorp, an internet conglomerate, said it would spin off four divisions, including its Ticketmaster business. Barry Diller, IAC's boss, wants to refocus his firm around its fastest-growing businesses, such as Ask.com.

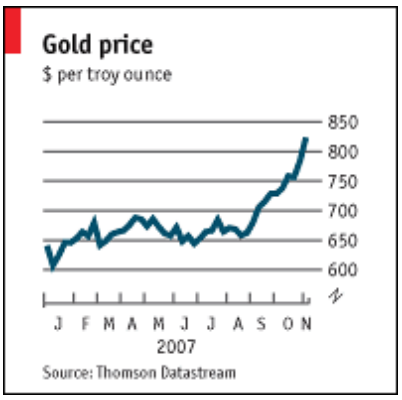
J. Sainsbury's share price plunged after an investment fund owned by the **government of Qatar** withdrew its offer to buy the British supermarket chain. The Qatari fund cited the cost associated with raising additional equity in the current market to cover liabilities for workers' pensions and was criticised for underestimating the scale of its commitment. It is the second time this year that Sainsbury's has found itself abandoned at the checkout by putative buyers.

Samsung Group became mired in scandal when its former top legal executive accused it of operating slush funds to bribe officials who may be thinking of investigating the affairs of the *chaebol*'s chairman. The South Korean conglomerate vigorously denied the allegations.

Picket lines were manned outside studios in Hollywood and New York after the **Writers Guild of America** downed pencils and went on strike. At issue is how much the scribes should be paid for TV shows that are shown on the internet. Studios said that the dispute would cost jobs if filming was stalled. See article

Bling gets more expensive

The price of **gold** came within touching distance of its all-time high. The metal has been partly boosted by the weakness of the dollar. Institutional and retail investors have diversified into precious metals—silver is at a 26-year peak and platinum at a record high. See article



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KAL's cartoon

Nov 8th 2007
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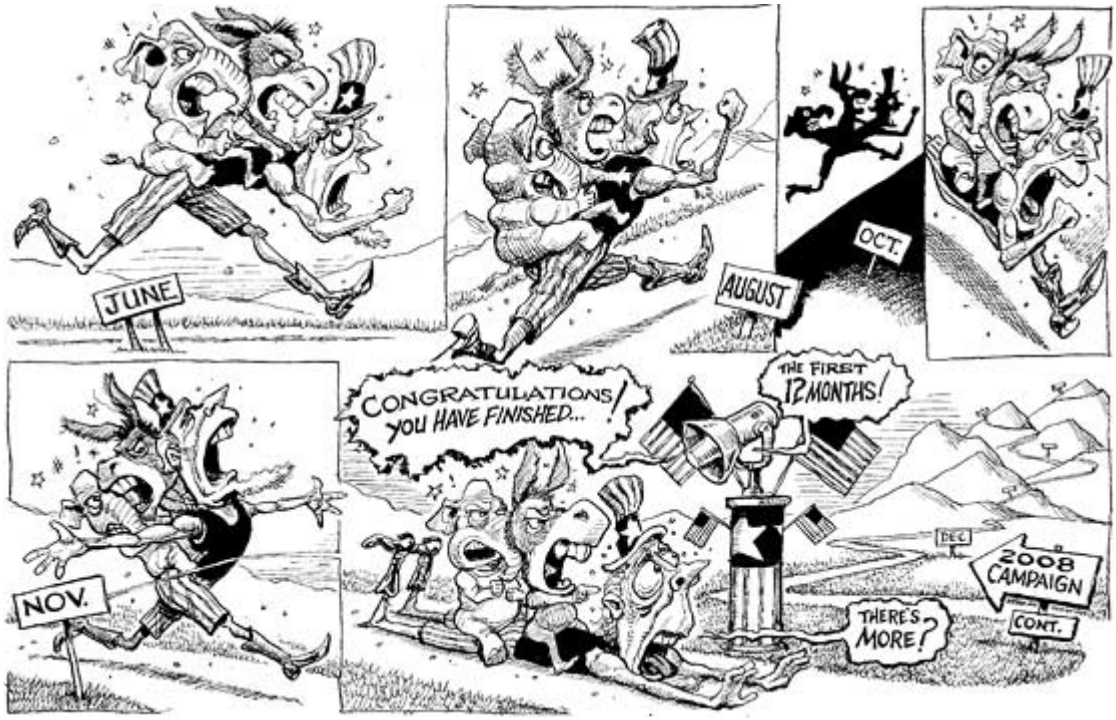
Illustration by Kevin Kallaugher



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Martial law in Pakistan

Time's up, Mr Musharraf

Nov 8th 2007
From The Economist print edition

No longer the potential solution, the general has become a big part of Pakistan's problem

Illustration by Kevin Kallaugher

Get article background

AS MILITARY dictators go, Pakistan's General Pervez Musharraf has always seemed rather a decent sort. An affable man who gives the appearance of speaking his soldierly mind, he prompted quiet cheers from many of his countrymen when he usurped power from a corrupt civilian government in 1999. After September 11th 2001, he won the backing of America and its allies, risking popular anger by swiftly enlisting his country in the war against al-Qaeda and the Taliban. Proclaiming himself an apostle of "enlightened moderation", he seemed, despite his embarrassing lack of democratic credentials, a relatively safe pair of hands to be in charge of a 165m-strong moderate Islamic nation—one that possesses nuclear weapons and is prey to a frightening extremist fringe.

Over the years, however, General Musharraf has squandered the goodwill he enjoyed at home and abroad. Many at home were angered by his alliance with America in a war they saw as directed at both Islam and their ethnic-Pushtun kin in Afghanistan. His persistent refusal to take off his army uniform and allow unrigged elections alienated liberal opinion.

So most of his support had evaporated even before he staged his second coup. That came on November 3rd, when he dismantled the constitutional facade built to prettify his rule and imposed, in effect, martial law. Hundreds of secular and Islamist politicians, lawyers and human-rights activists were locked up. Private television-news channels were taken off the air. For a decent seeming man, it was an act of political indecency. He may have been surprised by the vehemence of the condemnation he has faced, especially from America. But, like a borrower whose insolvency would bring down a bank, he may calculate that much of his former backers' anger is bluster, covering a fear of their own impotence. Many want him gone; America itself is demanding that he introduce some semblance of democracy. But it is not obvious how to force his hand without endangering the stability of Pakistan itself.

General emergency

A way must be found, however. General Musharraf has built his international alliances on the fear that whoever replaces him will be worse. If that were ever true, it is not now. He himself is now a central part of Pakistan's instability.

As so often happens to dictators, however decent they seem to start with, General Musharraf has come

to see himself as “indispensable”. In declaring what he euphemistically termed “a state of emergency”, he cited two threats to Pakistan's future that required his firm hand: the spread of violent extremism and the pesky interference of the judiciary in his efforts to deal with it. The first of these is a real and growing menace. The cancer of extremist violence (see article) has spread from the lawless tribal areas where Pakistan blurs into Afghanistan to the neighbouring parts of Pakistan proper, and beyond. The bizarre stand-off and bloody dénouement in July at the Red Mosque showed it can touch the administrative heart of Islamabad. Last month's carnage in Karachi at a procession celebrating the return from exile of Benazir Bhutto, a former prime minister, emphasised that nowhere in Pakistan is free of the threat. Nor, such is the involvement of Pakistan-trained terrorists in attacks in the West, is anywhere else. The radical mullahs of the border areas people the West's worst nightmares: a “Talibanised”, nuclear-armed Pakistan.

General Musharraf is gambling that, so terrifying are these nightmares, the West will give his authoritarian streak the benefit of the doubt. Freed from the pettifogging concerns of quibbling lawyers and self-serving politicians, goes the argument, he can concentrate on eradicating extremism. If only. It is true that Western diplomats have been frustrated in recent months by his preoccupation with political intrigue. But martial law has so clearly pitted him and the army against the rest of the country that, rather than gain a sharper focus, he is now likely to be even more distracted. Supporters of the prime minister he deposed, Nawaz Sharif, were already angered by General Musharraf's apparently illegal deportation of Mr Sharif when he tried to return from exile in September. After a lag Miss Bhutto's party was not spared this week's round-up of democrats. She will find it hard to resume the power-sharing talks that General Musharraf and America hoped might give his regime a credible civilian cloak. Already the legal profession, turned into anti-government street fighters by General Musharraf's clumsy attempt this year to sack a stubbornly independent chief justice, is manning the barricades again.

Looking for a lever

America and Britain are loth to do anything that might jeopardise their links with Pakistan's army and its intelligence services. Pakistan still smarts from what it sees as America's fickleness in ditching it in the 1990s after Pakistan had, through Afghanistan, helped topple the Soviet Union. Logistical support for the Afghan war, undermining the Taliban's rear base in the tribal areas, and intelligence on planned terrorist attacks in the West: all demand Pakistani co-operation.

For this reason, the most obvious stick with which the West can beat General Musharraf—the threat to withdraw American aid, of which nearly $11 billion has poured in since 2001—is difficult to use. But it should be used. After some tough talk from America, General Musharraf has apparently promised to hold elections by mid-February, overturning the suggestion by Shaukat Aziz, his prime minister, that elections due by January might be delayed a year. If this pressure is maintained, Pakistan can still be dragged back from the brink.

The top brass of the Pakistan army are protégés of their chief, General Musharraf. They have done well out of his rule both personally and institutionally from all that American largesse. But their loyalty to their boss can be assumed to be finite. It will end at the point where it becomes obvious he can no longer deliver the goods: either in terms of popular support for the army at home, or in terms of American backing. It must be made plain that such backing is dependent on restoring democracy, through a free election open to all. Otherwise, as military dictators go, so should General Musharraf.

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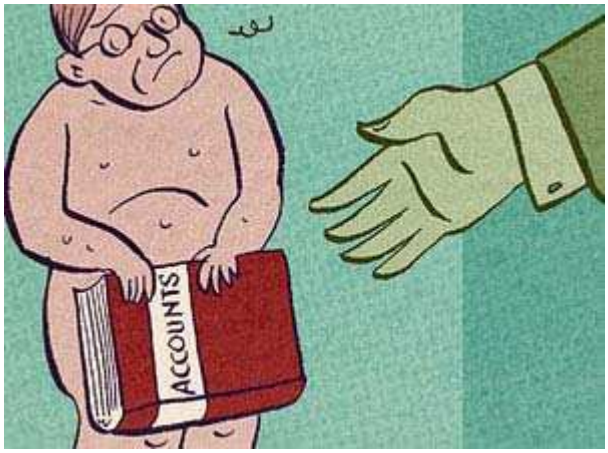
Banks

Capital punishment

Nov 8th 2007
From The Economist print edition

American banks need to do more than let a few heads roll

Illustration by Satoshi Kambayashi



SINCE the barbaric “breaking wheel” was replaced by the guillotine in 18th-century France, methods of execution have increasingly sought to end life speedily rather than inflict long agony. There can, however, be few decapitations less painful than those at big American banks. On November 4th Chuck Prince left the boss's office at Citigroup, the world's largest bank, with the “tremendous support and respect” of the board ringing in his ears, even though the firm had to write down $8 billion-11 billion in October alone (see article). A week earlier, Stan O'Neal lost his job at Merrill Lynch after leading the investment bank to a loss with $8.4 billion of write-downs. He too entered retirement not on a tumbril but in a limousine, with $160m to soothe his discomfort.

However churlish you may feel about Wall Street's new axiom—“the higher they fly, the bigger the parachute”—the departure of two of America's most senior bankers in a week is a good sign. Accountability, after all, is a step towards clarity, and there are few more coveted resources in today's fog-strewn and stormy banking industry. Both departures were accompanied by revelations of much steeper losses from American subprime mortgages than either Citi or Merrill had owned up to just weeks before. That attempt at honesty may have spooked the market because it showed how unsure the banks remain about how to value their subprime-related assets, but that is no reason to shy away from such disclosures.

One worrying lesson for bankers and regulators everywhere to bear in mind is post-bubble Japan. In the 1990s its leading bankers not only hung onto their jobs; they also refused to recognise and shed bad debts, in effect keeping “zombie” loans on their books. That is one reason why the country's economy stagnated for so long. The quicker bankers are to recognise their losses, to sell assets that they are hoarding in the vain hope that prices will recover, and to make markets in such assets for their clients, the quicker the banking system will get back on its feet.

Understanding your debts

Coming clean will be difficult, because for the time being the disclosures have provided more questions than answers. First, just how much do banks stand to lose? The latest confessions show that a whole new constellation of credit instruments, known as collateralised-debt obligations (CDOs), are far less secure than had been assumed even at the end of September. These include supposedly impregnable “super-senior” and AAA-rated tranches of CDOs that a short time ago were prized by the world's banks, insurance companies and mutual funds. In some cases their values have shrunk to a sliver of their

original price since a series of downgrades by rating agencies last month. Citi, one of the biggest issuers of such CDOs, estimated this week that the losses on CDOs and other assets at other banks could reach $64 billion—to which its own potential write-downs must be added. Others estimate that overall losses linked to subprime could exceed $200 billion.

Second, do banks have enough capital to survive the crisis? At some institutions, mounting losses are making the cushions of capital held for times of crisis look increasingly threadbare. Wall Street firms and European banks use a special accounting provision for securities they consider hardest to value, which appears mainly to involve educated guesswork. On Wall Street the amount of securities in this category has ballooned and could easily wipe out the big firms' core capital if they were written down to zero—which is improbable but no longer thought impossible. To make matters worse, bond insurers, which rate America's $2.5 trillion municipal-bond market, are also up to their necks in CDOs. They were told this week that they might lose their coveted AAA ratings unless their shareholders provide more capital, which would cast a cloud over municipal bonds.

Third, how hard might the broader economy be hit? The flimsier the banks' capital base, the less freely they can lend to firms and households, putting both consumer spending and corporate investment at risk. Already there is evidence that credit conditions are tightening well beyond the housing market. A survey this week found that American banks have been tightening lending standards on everything from mortgages to commercial property to business and industrial loans. In Europe too, credit conditions have tightened. In Britain the withdrawal of a bid for J. Sainsbury, a supermarket chain, by a Qatari-backed investment group was the latest sign that life has almost been squeezed out of the buy-out business.

Batman and Rubin

So what is to be done? The main task is to restore honesty, clarity and credibility as quickly as possible. Citi has turned to Robert Rubin, a former American treasury secretary once dubbed a member of “The Committee to Save the World”, to become chairman. Mr Rubin's star is a little tarnished now—he had advised Mr Prince since the latter became chief executive in 2003. The temptation for Mr Rubin and others will be to hold back from revealing the full extent of the banks' exposures to CDOs, subprime mortgages and other wilting assets. After all, there is no benefit in banking to be the first bearer of bad news, and many chief executives will be justifiably nervous of following the same route as Messrs Prince and O'Neal.

But if the banks do not come clean, regulators should push them. Auditors will apply pressure when the banks produce year-end reports. Meanwhile, those who would be screaming down a megaphone for full disclosure if the problem banks were Argentine or Brazilian should apply the same discipline closer to home.

The risk is that, as in Japan, tinkering will be easier than acting decisively. The incentives to continue pussyfooting are clear. Undue haste could cause panic. And it is comforting to believe that everything will work out all right in the end, especially if the Federal Reserve keeps cutting rates at every whiff of trouble. The higher oil and food prices go, however, the harder it will be for the Fed to respond so generously. The longer the wait, the harder the economy may fall.

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Technology in Asia

Howling at the moon

Nov 8th 2007
From The Economist print edition

America should keep its cool about the technological threat posed by China and India

David Angel

THIS week China showed off two of the trappings of an aspiring technological power. It pitched a satellite into orbit around the moon and sent the share price of an internet firm into the stratosphere on the Hong Kong exchange. Alibaba.com, China's biggest e-commerce site, raised almost as much money on its first day of trading as Google drummed up in its flotation in 2004. Meanwhile, China's *Chang'e 1* satellite, launched in October, began its first lap of the moon, marking another step towards a manned lunar mission.

China's technological enthusiasm is matched by that of India, which hopes to circle the moon with its own satellite next year. As the special report in this issue shows, both countries believe they can succeed in high-tech markets that America, Europe and Japan have long regarded as theirs by right.

These ambitions are viewed with alarm by the leading technological powers, not least America. Policymakers and industry groups quake at the number of scientists and engineers the two populous Asian countries turn out. They squeal about the imitation of ideas, both real and alleged, and lament the emigration of jobs. In 2005 the American Electronics Association called for a “Sputnik Summit”, which it hoped would stir the country to meet China's challenge, much as it responded to the Soviet Union's first satellite 50 years ago. Daniel Rosen of China Strategic Advisory, a think-tank, has heard dark murmurings on Capitol Hill, such as the suggestion that America should “nationalise whatever is left of the machine-tool industry” to stop firms decamping overseas.

So much for the fears. The facts suggest an altogether cosier accommodation between the aspirants and the incumbents. Japan and the West invent stuff and market it; emerging Asia makes stuff, customises it and services it. Sure, that formula misses some important nuances (foreign firms are, for example, doing some of their R&D in India and China). But insofar as any one sentence can sum up the elaborate division of labour that has evolved between these vast economic blocks, that is it. And although China and India have much to offer the world of technology, they have more still to gain from it.

The great bargain

Indeed, China's and India's ascent is much less scary than that of Japan and South Korea. Those two

countries stole customers from complacent Western firms in the car, phone, electronics and computer industries. But China and India see foreign firms as clients and investors, not just rivals. Likewise, foreign firms eye China's and India's big and relatively open markets as a source of customers as well as competition.

Besides, suppose America were to hold a Sputnik (or a *Chang'e*) summit. What would it conclude? That a big country with a well-drilled cadre of white-coats can pull off some impressive scientific feats? The Soviet Union's space-faring triumph did not betoken much of an economic threat.

Technological creativity is rooted in a country's institutions as well as its people's ingenuity. The rules that govern a society must police ideas just enough to reward innovation, without stifling diffusion and collaboration. China and India have yet to show they can crack that problem. “Governance is itself a kind of technology,” Mr Rosen points out. So far, America's governance has served its high-tech firms admirably well. Wild over-reaction, such as nationalising the machine-tool industry, would be rather like crashing into the moon.

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School reform

From broken windows to broken schools

Nov 8th 2007
From The Economist print edition

Imperfect though it is, New York's attempt to improve its schools deserves applause

Eyevine

Get article background

IN THE 1990s New York City's success in cutting crime became a model for America and the world. Innovative policing methods, guided by the “broken windows” philosophy of cracking down on minor offences to encourage a culture of lawfulness, showed that a seemingly hopeless situation could be turned around. It made the name of the mayor, Rudy Giuliani, now a presidential aspirant.

Hopeless is how many people feel about America's government-funded public schools, particularly in the dodgier parts of big cities, where graduation rates are shockingly low and many fail to achieve basic levels of literacy and numeracy. As with urban crime, failing urban schools are preoccupying countries the world over. And just as New York pointed the way on fighting crime, under another mayor, Michael Bloomberg, it is now emerging as a model for school reform.

On November 5th Mr Bloomberg announced a new “report card” for the city's schools, designed to make them accountable for their performance. The highest-graded schools will get an increased budget and perhaps a bonus for the principal (head teacher). Schools that fail will not be tolerated: unless their performance improves, their principals will be fired, and if that does not do the trick, they will be closed. This is the culmination of a series of reforms that began when Mr Bloomberg campaigned for, and won, direct control of the school system after becoming mayor in 2002. Even before the “report cards”, there have been impressive signs of improvement, including higher test scores and better graduation rates.

Mr Bloomberg has not been as brave with schools as Mr Giuliani was with crime. Oddly given his belief in competition, the former media mogul shunned the most radical option—vouchers that allow parents to shop around beyond the public-schools system for their children's education. On the other hand, even supporters of school choice, like this newspaper, have to admit it is proving hard to sell. (This week voters in Utah rejected a proposed voucher scheme, thought to be the 11th time in succession that voters have said no to something similar.) Nor has Mr Bloomberg made a big push to introduce large numbers of independent charter schools as exist, say, in Los Angeles.

Against this, Mr Bloomberg has provided an example of what a mayor with control of schools can do even without embracing such controversial ideas. He has avoided inflammatory political terms—“merit pay” and “vouchers” are red rags to teachers' unions. Instead, by using the carrot of pay rises to extract performance concessions from principals and teachers, and by persuading philanthropists such as Bill Gates to pay for innovations that might be hard to sell to the public if the public had to pay for them, he has put in place a system based on transparency, accountability and competition that he hopes will

achieve much the same effect.

Will it? A lot will depend on whether Mr Bloomberg's actions continue to match his tough talk. Unless bad schools are indeed closed, his scheme will be as much good as a blackboard with no chalk. But there are some parallels with Mr Giuliani's crime reforms. For the New York Police Department's giant CompStat database, which provided useful insight into crime patterns, read a new schools information system for students, parents, teachers and schools administrators designed by IBM. For the concept of making precinct police captains personally accountable for reducing crime, read the grading of schools and firing of failing principals. And so on.

Will it last?

New York's reforms are encouraging other cities to consider giving the mayor control of schools. That is a good idea, if only because school boards, the current alternative, are usually packed with patronage dispensing cronies of the unions. Voters now know who to blame in New York if the schools are bad. But mayoral control alone is no guarantee of success. For one thing, it can all too easily be reversed: it is by no means certain that the next mayor of New York will be granted the same powers as the present one, or will use those powers to sack bad teachers. The best hope is that Mr Bloomberg's new schools system will work so well that no future mayor would dream of changing it—just as no mayor nowadays would dare to tamper with Mr Giuliani's policies on crime.

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Israel and the Palestinians

Remembering Yitzhak Rabin

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The inner price Israel pays for its continuing occupation of the West Bank

AFP

Get article background

"YOU were the pillar of fire before the camp and now we are left only as the camp, alone and in the dark". So said his weeping grand-daughter, eulogising Yitzhak Rabin after he was shot in the back by a Jewish religious zealot 12 years ago. The murder of a strong and popular prime minister appeared briefly to unite the Jewish state. But the Israel of that time was in fact a camp divided. This year's anniversary has brought grim new evidence of how bitter the divisions have grown.

Millions of Israelis continue to mourn the war hero who shook the hand of Yasser Arafat and had seemed poised like a Moses to save the Jewish state by leading it out of the West Bank and Gaza, the lands he had himself conquered as army chief in 1967. But to a large minority of Israelis, Yigal Amir, his unrepentant murderer, has also become a hero. Though he remains in prison, Mr Amir has been allowed to marry and produce a son. A quarter of Israelis say they would not object to his sentence being commuted. At a recent football match, fans of one Jerusalem team horrified respectable Israel by greeting a call to remember the anniversary with chants in praise not of the fallen leader but of the fanatic who killed him.

The resurgence now of Israel's divisions over Rabin is no coincidence. He was murdered by one of those Israelis who say that the Jews have been granted a divine right to the whole of biblical Israel, and that this overrides both the Palestinian right of self-determination and the decisions arrived at by the secular institutions of Israeli democracy. The Oslo peace process of the 1990s convinced Israel's national-religious right that Rabin intended to surrender the God-given land. And now comes a new peace process, stirring new fears of betrayal. Later this month Arabs and Israelis are due to meet at Annapolis in Maryland. To make this more than a photo-opportunity, Israel's present prime minister, Ehud Olmert, will have to endorse the principle of sharing Jerusalem with a Palestinian state and giving up the bulk at least of the West Bank.

Whether some new Yigal Amir is plotting right now to destroy this plan by murder it is impossible to say. But one moral of the Rabin story is clear. Although history let some lucky countries (such as Britain, but not—remember Algeria—France) colonise the lands of others for a while without corroding unity and democracy at home, Israel is not one of those. Its own definition of itself, encompassing not only the location of its borders but also its internal cohesion and its political and moral values, is hostage to the fate of the Palestinian-inhabited territories Israel still occupies by military force.

As the stronger party, Israelis sometimes behave as though they can afford better than the weak and

divided Palestinians to postpone the day when historic Palestine must be divided into separate Jewish and Arab states. They are wrong. As the fight over the legacy of Rabin shows, the longer the occupation of the West Bank continues, the coarser, more fractious and more potentially violent Israel's inner life becomes. It is too much to say, as some do, that the survival of Israel depends on finding a safe way to leave. But the survival of Israeli democracy may well depend on it.

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On Europe, business regulations, Israel, shareholders, Michael Moore

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Europe's new treaty

SIR – Your leader on Europe was unbalanced and disingenuous ("Give Europe a say", October 27th). You describe Europe's reform treaty as a "constitution", though clearly it is not. In fact it is significantly less far-reaching than the Single European Act and the Maastricht treaty, both of which were not constitutions either. I do not recall *The Economist* arguing for referendums for these earlier laws.

What is left in the present reform treaty, even for those who have not opted out of a major proportion of it, as Britain has, is a minimalist document watered down almost to the level of unacceptability for everyone else in order to meet the preoccupations of the British. Now you argue for referendums everywhere, even though you know that 18 countries have already completed the domestic ratification processes required for the earlier, more substantive, so-called "constitutional treaty". You must surely recognise that calling for 27 countries to have a referendum on a document of this kind, where there is no ostensible price for saying no, is a recipe for confusion and an invitation for some at least to simply kick their governments in the teeth for wholly unrelated reasons.

A referendum would, however, be the appropriate method to establish whether a country wishes to remain part of the European Union. Would *The Economist* call for one to resolve the crisis that would undoubtedly result if, as you apparently wish, Britain alone rejected a treaty accepted by every other government in the EU? It might be the only honourable thing to do.

Peter Sutherland
London

SIR – The reform treaty is very different from the constitution. The treaty will allow Britain to choose whether to take part in EU co-operation on policing and criminal justice—the constitution did not. Among other things, the treaty contains a Britain-specific, legally binding protocol on the Charter of Fundamental Rights; keeps foreign and defence policy in a separate treaty; and contains new language excluding the jurisdiction of the European Court of Justice. It gives national parliaments new powers to scrutinise draft EU laws and force their review. And, for the first time ever, the treaty will state that national security is the sole responsibility of national governments.

As you acknowledge, the treaty does not create a super-state. Indeed, previous treaties had a greater impact on Britain. What the treaty does do is introduce sensible improvements to make the EU work better so that—at long last—it can cease its institutional engineering and focus its efforts on issues that really matter: delivering competitiveness, jobs, a cleaner environment and security.

Jim Murphy MP
Minister for Europe
Foreign & Commonwealth Office
London

Good regulations

SIR – Lexington's rant against red tape read like a litany of all the old complaints of libertarians, from Milton Friedman to the Cato Institute, but with a few of the anti-regulation clichés usually circulated by industry and trade associations tossed in for good measure (October 27th). The truth is that the deregulation movement in America has done quite well since the 1970s, though the costs of its success are rarely noted. For example, safety recalls for tainted beef and toys containing high levels of lead have cost investors and consumers millions of dollars this year alone.

It is perfectly true that as new professions or industries mature, early entrants will seek to impose standards, and sometimes they may appear to be absurd. When they are, the political process remains open to redress the imbalance. It would have been nice to hear the veterinarians' side of the story before Lexington gave complete credence to those unregulated “floaters” who fix horses' teeth.

Bruce Rockwood
Professor of legal studies
Bloomsburg University
Bloomsburg, Pennsylvania

SIR – Lexington seems to have confused interior design with interior decoration. The interior-design profession is regulated because the designers provide services that carry substantial risk of harm if performed by unqualified people. They design spaces in a manner that can, among other things, reduce the likelihood of the spread of germs and disease in hospitals; increase productivity in commercial offices; and encourage learning in schools. Most important, they understand buildings from the users' perspective.

Interior designers are required to know about building codes, mechanical and electrical systems, fire suppression methods and sustainability measures. The “state-mandated test” that Lexington referred to was developed by our organisation and examines a designer's competence in these areas: it does not cover “fabulous taste”.

Jeffrey Kenney
Executive director
National Council for Interior
Design Qualification
Washington, DC

Suicide-bombs in Israel

SIR – In a review of a book on Israel's settlers you quote a former adviser to the head of Israeli security as saying that Hamas's suicide-bombing campaign against Israel was prompted by Baruch Goldstein's attack on a Hebron mosque in February 1994 (“One reason for the absence of peace”, October 13th). In fact, the first suicide-bombing by Hamas occurred nearly a year before Goldstein's attack.

Steven Stotsky
Research analyst
Committee for Accuracy in Middle East Reporting in America
Boston

Share options

SIR – Your article on corporate governance notes that shareholder activists have become increasingly powerless as courts and regulators around the world push them further and further away (“Keeping shareholders in their place”, October 13th). You conclude that it is unsurprising they have come to feel despondent.

However, most activist investors have lost sight of the wood for the trees. There is no greater shareholder activity than buying—and selling— shares. By getting trapped in detail, shareholder activists have abandoned their most forceful instrument: the power of the market. This point was made as long ago as 1960 when Philip Fisher, a successful investor and author, noted that, “As in the case of your doctor, your lawyer, your plumber, or any other specialist you select, if your opinion of them changes, for the worse, don't get into endless arguments with them, but get rid of them and get someone else who is better.”

Adrian Saville
Chief investment officer
Cannon Asset Managers
Johannesburg

Annoying lefty

SIR – In your story on the revival of rustbelt cities such as Flint, Michigan, there is a reference to Michael Moore without a single disparaging adjective to describe the documentary-maker ("Back from the dead", October 27th). I believe *The Economist*'s style rules call for a minimum of two. Please see to it that all new or neglectful contributors are reminded of this.

Cary Allen
Portland, Oregon

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Pakistan

Lawyers against the general

Nov 8th 2007 | ISLAMABAD AND SWAT
From The Economist print edition

Reuters

However Pervez Musharraf tries to justify his actions, this is a dark time for his wretched country

Get article background

WITHIN 48 hours of launching his second coup on November 3rd, General Pervez Musharraf had compared himself to Abraham Lincoln and Napoleon Bonaparte. Like America's president—he told Pakistanis in a televised address, shortly after he had suspended the constitution—he had been forced to intervene to prevent his country falling apart. “I will not let this country commit suicide,” he said.

General Musharraf's identification with the little French corporal seemed more apposite. Pakistan is certainly unstable. In the past month alone, hundreds have been killed in political violence, Islamist insurgency and terrorism, including at least five suicide-bombs. Yet the general, an unpopular and now clearly illegitimate dictator, is one cause of this strife. Unlike Lincoln, he intervened to save not his country but his skin.

On his order, the Supreme Court and provincial high courts have been suspended. Dozens of dissident judges have been purged. The chief justice, Iftikhar Chaudhry, a popular and cussed opponent of the general, is under house arrest. An artful friend of the general, Abdul Hamid Doger, now has his job. Private TV news channels have been taken off the air. Critics of the army or General Musharraf face a new penalty of three years in prison. Political gatherings are banned.

At least 2,000 lawyers, political activists, human-rights workers and journalists have been detained. They include famous opponents of army rule, including Asma Jehangir, a former UN special rapporteur. In an e-mail from house arrest, where she has been placed for 90 days, Ms Jehangir supposed that General Musharraf had “lost his marbles”. The leaders of most opposition parties are also in the clink or in hiding. Speaking from a secret place, Ahsan Iqbal, the mouthpiece of Nawaz Sharif's Pakistan Muslim League (N) party, claimed that as many as 2,400 of his party workers had been rounded up.

General Musharraf calls this a state of emergency: a constitutional provision that allows for the suspension of some rights. Experts disagree. “The constitution does not provide for its own extinction. This is martial law,” said Salman Raja, one of Pakistan's finest constitutional lawyers, educated at Cambridge and Harvard—and detained in Model Town police station, Lahore.

Perhaps unwittingly, General Musharraf confessed to 80 foreign diplomats in Islamabad on November 5th that his intervention was merely a matter of self-preservation. He was re-elected president last month by his supporters in Parliament, and had been due to be re-sworn for another five-year term on November 15th. A general election was due to follow in January. But his candidacy had been challenged in the Supreme Court on the ground that a serving soldier cannot be a presidential candidate. The judges were rumoured to be preparing to deliver their verdict this week.

It would have been remarkable if they had decided against the general. During a history of on-off military rule—including four uniformed dictators—Pakistani judges have almost invariably bent to the army's bidding. Yet General Musharraf's case might have required an especially painful contortion. Under the constitution, army officers must swear that “I will not engage myself in any political activities whatsoever.” And at the time when Mr Chaudhry had struck a spark of judicial independence on the Supreme Court, the judges might have read this as plain English. That, at least, was General Musharraf's fear.

Bully that he is, the general told the diplomats to thank Mr Chaudhry for his coup. He was then asked by Britain's envoy to confirm that he would nonetheless quit the army and hold an election as promised. General Musharraf said he aimed to do these things. But he could not say when. A stickler for legal process—a curious trait in a two-time coupster—he said he feared that by seizing power he had introduced “legal complications” into his disrobing.

Meanwhile, the prime minister, Shaukat Aziz, suggested that the election could be put off for a year. His colleagues in the ruling Pakistan Muslim League (Q) (PML(Q)) party, a gang of chancers recruited to give a parliamentary stamp of approval to the general's edicts, added to the confusion. The party's leader, Chaudhry Shujaat Hussain, predicted that the election would be held on time. On November 8th, however, General Musharraf was reported to have promised the election by February 15th. Mr Chaudry's main rival, Mr Sharif, a bitter foe of the general who was exiled to Saudi Arabia in September, has been especially damaged by the coup. The Supreme Court was almost certain to rule that he must be allowed back to contest the election. This is now hard to imagine.

A troublesome judge

In Lahore, Karachi, Peshawar and Multan this week, crowds of up to 2,000 lawyers have rallied against General Musharraf's coup. Wearing black suits and sleek moustaches and chanting nicely-worded slogans (“Dictatorship? Not acceptable!”), they are the general's main opponents. And so they have been since March, when General Musharraf first sacked Mr Chaudhry. On that occasion, the chief justice was surprisingly reinstated by his fellow judges after tens of thousands of lawyers protested. By taking the extra precaution of demolishing the Supreme Court bench, General Musharraf will now believe he has rid himself of a troublesome judge.

But he has not heard the last of him. On November 6th, in a speech broadcast to lawyers protesting in Islamabad, Mr Chaudhry called for popular resistance to his ouster. Speaking from house arrest, he said: “The constitution has been ripped to shreds. The lawyers should convey my message to the people to rise up and restore the constitution.”

AP

Unwelcome neighbours

With baton charges, and a whiff of tear-gas, the police are trying to quash the dissent. Hundreds of lawyers have been thrashed in the streets. This strategy, orchestrated by the army's Inter-Services Intelligence (ISI) agency, seems to be working. Despite wide hostility towards General Musharraf and admiration for Mr Chaudhry, the Pakistani masses have shown no inclination to rise up—so far.

Almost all of those detained belong to the tiny, politically active portion of Pakistani society that tends to be arrested in such times. Monstrous as this is, they can usually find friends to help them wriggle out of trouble—unlike the hapless poor. In a typical scene, in front of the Supreme Court in Islamabad, a small crowd of slogan-chanting lawyers, including several well-groomed women wearing expensive sunglasses, took turns to get bundled into the back of a police van. From there they flashed victory salutes to assembled photographers. It will take more than this to trouble the general and his spies.

On November 6th Benazir Bhutto, leader of the opposition Pakistan People's Party (PPP), added her voice to Mr Chaudhry's: “I appeal to the nation to join the protest and show their power.” If she means it, General Musharraf may be in trouble. The PPP is Pakistan's biggest party, and the only one likely to rally huge crowds. Last month, 200,000 people turned out in Karachi to welcome Miss Bhutto home from self-imposed exile.

Yet it is unclear how seriously Miss Bhutto means to resist the general. She has been negotiating to share power with him, offering her party's support in return for a fair election and other boons. Indeed her homecoming was a sign of a tentative accommodation. It followed General Musharraf's grant to Miss Bhutto of an amnesty against corruption charges relating to her two terms as prime minister. (In a typical Pakistani stitch-up, the amnesty also covered army officers, bureaucrats and heads of public companies, for crimes seen and unseen; it does not apply to Mr Sharif.)

Benazir's dance

Miss Bhutto's rally in Karachi provided a second reason for scepticism about her clarion call. It was interrupted by twin suicide-bomb blasts that killed 150 people. Taliban militants in north-western Pakistan were probably to blame. They had threatened to kill Miss Bhutto, and presumably they still mean to. This gives the government another excuse to ban her meetings. In issuing her call, Miss Bhutto declared that a rally scheduled to welcome her to Rawalpindi on November 9th would become a demonstration against General Musharraf's coup and go ahead in defiance of a government ban.

Given such obstacles, despite her livid words, Miss Bhutto may yet conclude that the path of token resistance remains her safest way to power. Indeed the current hiatus could even work to her advantage. Since returning to Pakistan, her negotiations with General Musharraf have stalled. Besides her amnesty, she wants guarantees that General Musharraf and his spooks will not rig the election against her, as is their wont. These include the suspension of corruptly-elected local officials and a clean-up of the electoral commission, which is stuffed with the general's men. Miss Bhutto also wants the general to lift a ban on third-term prime ministers.

General Musharraf intends to give Miss Bhutto none of these things. And his supporters in the PML(Q), many of whom loathe Miss Bhutto both personally and ideologically, are determined that he should not.

Yet they cannot hope to form another government without fresh allies. And there are few eligible candidates for this role. Mr Sharif and General Musharraf are unacceptable to each other. An alliance of Islamists, the Muttahida Majlis-e-Amal (MMA), which once backed the general, is unacceptable to his Western friends. It is also enraged by a bloody, and so far disastrous, army campaign against Taliban militants in north-western Pakistan, a semi-autonomous Pushtun tribal region. So Miss Bhutto, if she remains willing, it may be. But if so, she will hope that the general is so disgraced by the current mayhem that he will have to accept her terms.

America will be crucial in this. It has backed the general devoutly since 2001, when he withdrew Pakistan's support from Afghanistan's Taliban government. It has blessed his regime with nearly $11 billion in aid, most of it military. And it now fears it may need his martial leadership more than ever. In both Afghanistan and Pakistan, interconnected Taliban insurgencies and jihadist terrorism are flourishing. On November 6th a suicide blast in northern Afghanistan killed around 40 people, including six members of Parliament—the country's worst such atrocity.

Yet these dreadful setbacks have persuaded America that its problems in Afghanistan are more long-term, and regional, than it had previously thought. Neither Afghanistan not Pakistan can be passably stable while Pakistan is so divided. And greater unity will require more legitimate government than it has enjoyed under General Musharraf. America's strong suggestion has therefore been that General Musharraf should indeed join hands with Miss Bhutto, leader of the most liberal political party, and nudge Pakistan towards democracy.

A search for leverage

His coup is therefore a direct affront to his most generous supporter. Only two days before he launched it, Condoleezza Rice, the secretary of state, personally warned General Musharraf not to do so. She has since told him publicly to quit the army and hold the election as promised, or risk a cut in American cash. On November 6th President George Bush added his own unprecedented chastisement of the general, and called him the next day to deliver the message that there should be elections as soon as possible. The president, he said, “should remove his military uniform”.

America is not short of potential leverage over the coupster. Its walloping aid to his regime includes $5.6 billion given in cash transfers to the Pakistani defence ministry from a war-chest known as the Coalition Support Fund (CSF). This money is intended to underwrite the costs of his four-year campaign in the tribal areas, a crucial American concern. Yet it is nonetheless extraordinarily munificent, with no strings or stringent accounting requirements. If America wanted to give the general serious pause, it might add both. But this is unlikely to happen.

To appreciate why, consider another contest over Pakistan's future. On November 4th, as the ISI was rounding up human-rights activists, it released an aspiring suicide-bomber. His name is Sohail Zeb. He is a 22-year-old from Tank, a town adjoining the tribal agency of South Waziristan, and he was sentenced to 24 years in jail last month after being arrested with two suicide belts. Mr Zeb was one of 25 Taliban militants quietly returned to their commander, Baitullah Mehsud. In exchange, Mr Mehsud released over 200 Pakistani soldiers, including officers, who surrendered to his fighters in August.

It is hard to exaggerate what a fiasco this is. Mr Mehsud controls a vast terrain in South Waziristan, a tribal agency bordering Afghanistan. Western and Pakistani intelligence officials say he has sent many fighters, via Pakistan's Baluchistan province, to attack NATO peacekeepers in Afghanistan; he is also believed to shelter foreign and local terrorists. Indeed, it was Mr Mehsud who threatened to kill Miss Bhutto. Yet the army, which has deployed 92,000 troops to the tribal agencies and adjacent areas of North-West Frontier Province (NWFP), is not trying to kill Mr Mehsud. It is trying to restore a formal ceasefire agreement that it made with him in 2005.

AP

No honeymoon in Swat

This is crazy. Even by the standards of his violent and radicalised area, Mr Mehsud is a very bad egg. Yet it reflects a broader confusion about the border region that is not easy to address. In North and South Waziristan, the army's campaign, American-designed and American-funded, has been a disaster. It has delivered prestige (and thus power) to a seemingly inexhaustible supply of local militants schooled on *jihad* in Afghanistan, against first Soviet and then American invaders. The local administration, always fragile, has been swept away. The army, trained to fight tank battles against Indians on the plains of Punjab, is at a loss. It has tried fighting the militants and it has made deals with them. Either way, it has failed to secure the rugged border or maintain order inside it. And meanwhile the Taliban's appeal is spreading deeper into Pakistan.

Losing to Mullah Radio

In the tourism area of Swat, formerly famous for honeymooners and the site of Pakistan's only ski-lift, 2,500 troops were dispatched last month to sort out an irksome local mullah, Fazalullah. This followed a suicide blast against a police truck in the local town of Mingora, on October 26th, that left 21 dead. Alas, the army seems to have been routed. On November 3rd Fazalullah, who is known as Mullah Radio after his *jihad*-inspired broadcasts, released 45 soldiers captured in the fight. In interviews with local journalists, some said they would not kill their Pushtun brothers. On November 6th Fazalullah's fighters seized their third Swati town, in the process capturing another 40 soldiers and police. At least four police have meanwhile been found beheaded, along with notes accusing them of being American spies.

At Fazalullah's headquarters, a pretty riverside village called Imam Dheri, is a vast half-built mosque where the mullah is reported to draw congregations of 5,000 people. Outside it, long-haired militants took a pause from battle to rest, pray and feast. Munching on rice, a militant called Muhammad Rahim regretted the beheadings; he blamed them on local villagers in an “emotional frenzy”.

So long as jihadism thrives, on the internet, anywhere, it is hard to imagine such places being tamed. Even a sustained army campaign, which is essential, may fail as long as non-Muslim armies remain in Afghanistan. And though it would help if Pakistan's government were more broad-based and trusted, that is no magic solution. The PPP, for example, has little support in NWFP or the tribal areas.

Blundering, incompetent and compulsively dictatorial as General Musharraf has turned out to be, this is why America is unlikely to withdraw much support from him. It fears his successor might abandon the fight against militancy altogether. The limit of American hopes is to see him hold an election, almost certainly rigged, which may throw up a worthier ally for the autocrat. For Pakistanis, it is hard to know which, hope or fear, is more distressing.

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New York's schools

The great experiment

Nov 8th 2007 | NEW YORK
From The Economist print edition

Eyevine

Bringing accountability and competition to New York City's struggling schools

Get article background

THE 220 children are called scholars, not students, at the Excellence charter school in Brooklyn's impoverished Bedford-Stuyvesant district. To promote the highest expectations, the scholars—who are all boys, mostly black and more than half of whom get free or subsidised school lunches—are encouraged to think beyond school, to university. Outside each classroom is a plaque, with the name of a teacher's alma mater, and then the year (2024 in the case of the kindergarten), in which the boys will graduate from college.

Like the other charter schools that are fast multiplying across America, Excellence is an independently run public school that has been allowed greater flexibility in its operations in return for greater accountability, though it cannot select its pupils, instead choosing them by lottery. If it fails, the principal (head teacher) will be held accountable, and the school could be closed. Three years old, Excellence is living up to its name: 92% of its third-grade scholars (eight-year-olds, the oldest boys it has, so far) scored “advanced” or “proficient” in New York state English language exams this year, compared to an average (for fourth-graders) across the state of 68% and only 62% in the Big Apple. They did even better in mathematics.

This is the sort of performance that the mayor, Michael Bloomberg, now wants to extend from New York's 60 charter schools to all of the city's schools. On November 5th, the mayor and his schools chancellor, Joel Klein, announced what is in effect the final piece in their grand plan to charterise the entire city school system. As charter schools remain politically contentious, though, they have been careful not to use that phrase in public.

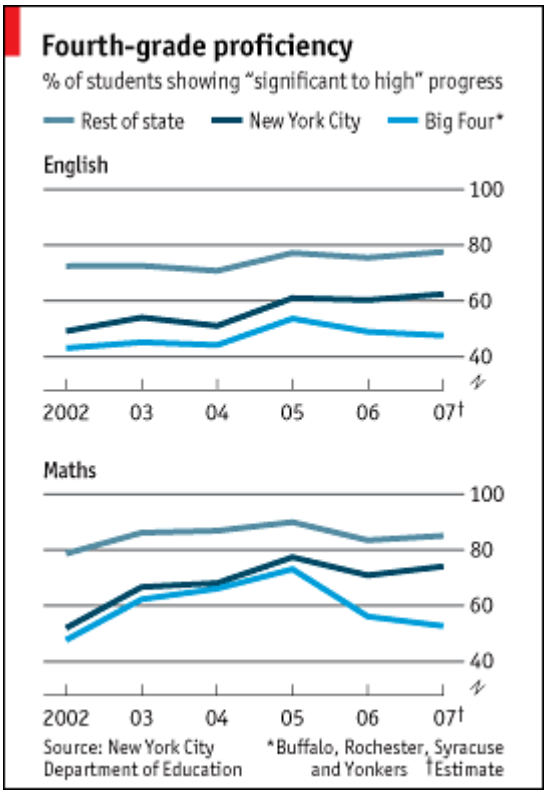
When Mr Klein took the job in 2002, having led the Clinton administration's efforts to break up Microsoft, *The Economist* joked that he should try to do the same thing to New York's schools monopoly. He more or less has. Under the new scheme, every school run by the city will receive a public report card, with a grade that reflects both academic performance and surveys of students, parents and teachers. The first grades were given out this week.

Schools that do well will get a boost to their budget; the principal may get a bonus of up to $25,000 on top of a base salary of $115,000-$145,000. Schools graded D or F (about 12% of them this year) will have to submit improvement plans that will be implemented with support from Mr Klein's department. Principals whose schools are still faltering after two years will be fired. Schools still failing after four years will be closed. Though each element of what is happening in New York has been tried elsewhere, this

seems to be the most far-reaching urban school accountability initiative in America. Mr Klein claims that no school system on earth has innovated on the scale of New York.

Even New York's previous reforming mayor, Rudy Giuliani, failed to improve the city's disastrous schools, despite several attempts. When he ran for election in 2001, Mr Bloomberg said the school system was “in a state of emergency”. The graduation rate in 2002 was alarmingly low, 51% of students compared to a national average of 70%. Most New Yorkers thought the system impossible to fix.

To do something about this, Mr Bloomberg demanded, and got, the thing that Mr Giuliani had with the police but not with the schools: mayoral control. As soon as he had it, the new mayor promptly moved the schools headquarters from its sprawling building in Brooklyn to be next to the heart of his government in City Hall. He hired Mr Klein, and they set about changing things—initially by taking decision-making away from the patronage-heavy local school boards, and then by decentralising it to accountable principals, and by actively piloting experimental charter schools that could be models for others. A new “leadership academy” was created to train principals. Big schools with poor graduation rates were closed, and replaced with smaller ones, often several sharing the same building once occupied by a single big school.



Many of these innovations were paid for by wealthy philanthropists, including Bill Gates of Microsoft, Eli Broad from Los Angeles and sundry hedge-fund managers who have been cajoled into handing over millions of dollars at the annual Robin Hood Foundation auctions. Mr Klein says that this private source of funds was crucial in paying for experiments that might have involved huge political battles had they been paid for out of public funds. The hope is that in future, such reforms might be more widely supported.

Even before this week's reforms, progress has been sufficiently impressive that the Broad Foundation declared New York the most improved urban school district in the nation. Some $500,000 in Broad scholarships will be distributed to graduates. In 2002 less than 40% of students in grades three to eight (aged eight to 14) were reading and doing maths at their grade level. Today, 65% are at their grade levels in maths and over 50% in reading. Graduation rates are at their highest in decades. Last year the city outperformed other New York state school districts with similar income levels in reading and maths at all grades. The gap between white and minority students has been narrowed.

The New York reforms rely on collecting a lot of data. An $80m computer system designed by IBM will give teachers access to information about student performance and progress as well as contact information for parents.

Equally crucial has been Mr Bloomberg's success in winning round hitherto reluctant principals, who have agreed to sign a new accountability contract, and the teachers' unions, which despite quibbles broadly support the new system. The fact that teachers' starting pay is up on average by 43% since Mr Bloomberg took office may have helped. But whatever the reason, there seems a good chance that the reforms are here to stay.

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Schools (2)

The untidy revolution

Nov 8th 2007 | LOS ANGELES AND NEW ORLEANS
From The Economist print edition

Elsewhere in America, school reform is slower and messier, but the pressure for change is coming from parents, which bodes well

Get article background

OUTSIDE New York, as usual, it is a different story. Most American mayors look longingly at Michael Bloomberg's accomplishments and wish they were equally mighty. West of the Mississippi, none has succeeded in seizing control of a school system. Nor are they likely to be able to do so: the early 20th century progressive movement, strongest in the West, severely blunted their powers. “We haven't had reform from the top here,” says Eli Broad, a Los Angeles philanthropist. “So instead we're seeing change from the bottom up.”

AP

And, yet again, they did

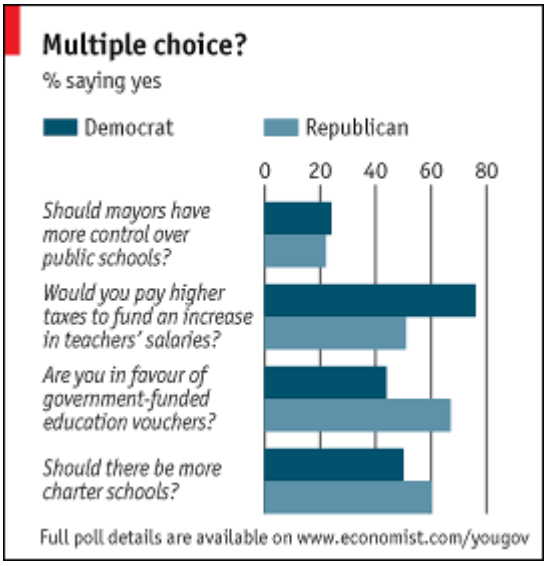
In the vanguard are charter schools like the Academy of Opportunity in south-central Los Angeles. Here 13- and 14-year-olds, almost all of them black or Hispanic, firmly shake your hand and outline their plans to go to Yale and Stanford. They work long hours—from 7.30am to 5pm five days a week, plus four hours every other Saturday. The grind pays off. At the end of their first year in the school just 28% of pupils are proficient or advanced in maths, compared to 48% of pupils elsewhere in California. By the time they leave, three years later, they far outperform their peers.

Los Angeles has 125 charter schools, more than any other school district in America. That is partly a reflection of the dismal state of the mainstream public schools. Perhaps no city would find it easy to educate such a diverse group of children, many of them the offspring of immigrants from rural Mexico. In California, with its miserly education budget and stifling state bureaucracy, the task is almost impossible. For many parents in poor areas, charter schools represent the only hope for a decent education.

That became even clearer this week when another promising reform was stymied. Voters in Utah struck down a scheme, passed last year by the state legislature, which would have helped parents pay for their children to go to private schools. In principle, vouchers are popular: a YouGov poll for *The Economist* (see chart) finds 53% of people favouring them, with only 32% opposed. Yet voucher schemes have been defeated in every state where they have been on the ballot. Some fear harm to the public-school system, others an influx of poor children. If a universal voucher system cannot be introduced in America's most conservative state, it probably can't be anywhere.

As public schools, albeit independent ones, charters cannot

deliver nearly such a strong competitive shock to the system. Yet they still introduce a welcome element of choice. Because they are not too controversial, they have been able to grow quickly: some 1.2m American pupils attend them, compared to fewer than 100,000 who receive vouchers. And they are beginning to affect other schools. In May a majority of tenured teachers in Locke High School, one of the worst in Los Angeles, expressed a desire to convert the school into a charter. It was an astonishing gesture, since (as the teachers' union quickly pointed out) they would lose some of their rights.



The drowned and the saved

Michael Kirst of Stanford University reckons about 15% of pupils in a district need to be going to charter schools before the system as a whole faces real pressure to change. That is not easily achieved, given a lack of appropriate buildings: the Academy of Opportunity has moved three times since it was founded in 2003. Yet the threshold has been reached in a few places, such as Washington, DC, and Dayton, Ohio. And it has been spectacularly exceeded in a city that is among the last one would associate with reform.

New Orleans's public schools have long been a shambles. Since the 1980s the middle class has fled them for the private sector, with the result that most of the system's 65,000 pupils came from poor, often single-parent, homes. A potent teachers' union combined with a meddling school board to frustrate reform. The system was startlingly corrupt: in June a former president of the board pleaded guilty to receiving some $140,000 in kickbacks.

Two years ago Hurricane Katrina swept away this sorry edifice. The state of Louisiana, which had seized control of some of the worst schools before Katrina, took over most of the district, leaving only the best-performing schools to the local board. Charter schools were approved in bunches, with an entire “charter district” created in the Algiers neighbourhood, on the west bank of the Mississippi River. As a result, New Orleans now has a higher proportion of pupils in charter schools than anywhere else in America.

So far, test results suggest that the charters are doing better than the competition. And there are other encouraging signs. Earlier this year the state brought in a new superintendent, Paul Vallas, who had helped turn around schools in Philadelphia and Chicago. The once-mighty teachers' union and school board have seen their influence wane. Still, fixing New Orleans's schools will be a daunting task. The system is in flux: more students are trickling back each month, swelling the school population from a low point of about one-third of pre-Katrina levels to about half today. And Karran Harper Royal, a trenchant critic of the public schools, points out that corruption may be even harder to root out when there are more than seven school-board members to keep tabs on.

In New Orleans, as in Los Angeles, a certain amount of chaos is to be expected. Some charter schools are bound to close. Five hundred and sixty others have done so around the country since 1992. Yet, while that will be painful for the children affected, it will be a good thing in the long run if it leads to better schools. Reforms carried out by a mayoral strongman are quicker and tidier. But most revolutions are messy.

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The campaign trail

Primary colour

Nov 8th 2007
From The Economist print edition

Date night

“It's Saturday night, if you have better places to go, thank you for being here and have a good night.”

Hillary Clinton plainly didn't expect her audience to hang around in Indianola last weekend, Washingtonpost.com, November 6th

Cash poor

“I only got three [dollars] in my pocket.”

Multimillionaire Mitt Romney has to borrow from an aide to buy a cup of coffee, Associated Press, November 2nd

Family ties

“For the first time in a long time, the name George Bush will not appear on the ballot. The name Dick Cheney, my cousin, will not appear on the ballot. We had been trying to hide that cousin thing for a long time. Everybody's got a black sheep in the family. A crazy uncle in the attic.”

Barack Obama on his distant relative, the vice-president, CNN, *November 5th*

Macho man

“I think people are afraid now not to support us. I'm going to send him to their house, and he'll knock on the door.”

Mike Huckabee on his endorsement by action star Chuck Norris, US *News & World Report*, *November 2nd*

Let the mighty eagle soar

“That bird [Marine One] could be yours.”

President Bush points out the perks of the presidency to the billionaire independent non-candidate and mayor of New York, Michael Bloomberg, *Newsweek,November 12th*

Fair and balanced

“What they have done is, they have totally dismissed the fact that this guy's influence is going to lead people to hell.”

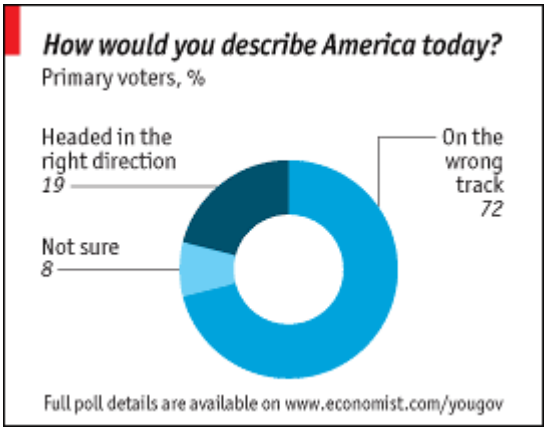
Televangelist Bill Keller on Christian conservative leaders who

endorse Mitt Romney, a Mormon, Salon, *November 6th*

Now wash your hands

"I took a city that was known for pornography and licked it to a large extent."

Rudy Giuliani on how he saved New York, Associated Press, October 24th



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Kentucky and Virginia

Red, white and bluegrass

Nov 8th 2007 | FRANKFORT
From The Economist print edition

Democrats hope for a comeback in two Southern states

ELECTION TUESDAY, on November 6th, the “off-year” halfway point between last year's mid-terms and next year's presidential vote, was a non-event in most of America. There were a few dramas, though. The most exciting one took place in Kentucky, and left Republicans wanting to cover their eyes. Four years ago Governor Ernie Fletcher symbolised the Republicans' new hold on Kentucky. On Tuesday night, Steve Beshear, the Democratic challenger, trounced him 59% to 41%. Democrats reclaimed Frankfort, the capital, whistling, hooting and toasting themselves in glee. But it remains unclear whether the celebrations will be repeated this time next year.

It has been a hard few years for Kentucky's Democratic Party. The state is historically Democratic, and registered Democrats still outnumber Republicans by 1.6m to 1.1m. But many Democrats have started voting red. In 1994 Ron Lewis snatched a Democratic congressional seat in west-central Kentucky, a victory that was part of the Republican revolution of that year. Mitch McConnell, the Senate minority leader and Kentucky's local kingmaker, has helped his party tighten its hold in Washington. Though Kentucky voted for Bill Clinton twice, the state favoured George Bush in 2000 and 2004 by wide margins. Both its senators and four of its six congressmen are Republicans.

Democratic leaders hope Kentucky's pendulum is swinging back to the left. Last year Kentucky Democrats unseated a Republican congresswoman. This year's governor's race, the party's local leaders say, has brought more errant voters back to the fold. Republicans naturally insist that Mr Fletcher's defeat was an aberration.

In the fight to turn Kentucky blue, Democrats could not have found a better ally than Mr Fletcher. Four years ago he made conservative strategists swoon: he is a former fighter pilot, doctor and Baptist minister. In 2003 he became Kentucky's first Republican governor for 32 years.

Triumph turned to despair. Mr Fletcher angered his own party by shutting out long-suffering state Republicans. Then, having taken office with the promise to “clean up the mess in Frankfort”, he became mired in a hiring scandal. When it came time for re-election, many Republicans kept their distance. Mr Beshear, a well-spoken candidate with a fine record in Kentucky government, coasted through the campaign with a 20-point lead. Now the Democrats have Mr McConnell's Senate seat in their sights.

Democrats are also doing well next door, in Virginia. In 2006 Jim Webb, a Democrat, narrowly beat George Allen, a Republican incumbent senator. The Commonwealth has had two successive Democratic governors. And on November 6th the Democrats seized control of the state Senate and made gains in the House of Delegates, the state's narrowly divided lower chamber. These are remarkable results in a state that last supported a Democratic presidential candidate in 1964.

Although other Democratic gains could be explained away by the moderation and charm of particular individuals—or, in the case of Mr Webb, by the gaffe-plagued campaign of his opponent—this legislative victory is evidence that the Democrats' success is more solid than one candidate's appeal. In particular, Democrats are making inroads in the north Virginian suburbs of Washington, one of the fastest growing regions in the country.

The Democrats are now looking to 2008, when the other Republican senator, John Warner, will vacate his seat. Mark Warner, a popular Democratic ex-governor, will run for the spot, and looks likely to win. For the first few decades after independence, Virginia occupied the geographical and political centre of America, producing four of the first five presidents. With a more evenly divided electorate, perhaps Virginia will regain prominence on presidential electoral maps, too.

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Capital punishment

The machinery of death

Nov 8th 2007 | WASHINGTON, DC
From The Economist print edition

An ambiguous moratorium

NO ONE was put to death in America last month, and there may be no more executions until the middle of next year. Quietly and ambiguously, the Supreme Court appears to have imposed a national moratorium on judicial killing. But abolitionists should save their cheers. The court has not suspended capital punishment itself; only the most common method of applying it.

Of the 38 states which execute murderers, all but one do so by lethal injection. In 36 states the drugs used are a triple cocktail that first sedates the prisoner, then paralyses his lungs and finally stops his heart. The trouble is, since executioners' hands can shake and murderers are often former drug-injectors with battered arms, the needle is not always inserted correctly. Studies suggest that some prisoners are inadequately sedated and suffocate in agony.

Some states, fearing that this is an unconstitutional “cruel and unusual punishment”, have suspended executions indefinitely. Now the Supreme Court is stepping in, too. It recently granted stays in lethal-injection cases in Texas, Virginia and Mississippi. Earl Berry, a Mississippian who abducted a woman coming out of choir practice and beat her to death, was scheduled to die on October 30th, but the Supreme Court gave him a temporary reprieve less than an hour before his execution was due.

The justices gave no reason. They do not have to. But some prosecutors have taken the hint. In three counties in Texas, the state where most American executions take place, prosecutors say they will not press for any more until the Supreme Court rules clearly as to whether triple-cocktail injections are allowed.

That ruling is expected next year. In January the court will hear a challenge, filed on behalf of two murderers from Kentucky, which specifically addresses whether the drugs (sodium thiopental, pancuronium bromide and potassium chloride) cause unnecessary pain. It will be the first time the court has ruled on a method of execution since 1879, when it said Utah could use a firing squad.

No one knows how it will rule this time. If it bans this combination of drugs, which were adopted without much research, states can presumably come up with some different ones. One idea is to kill prisoners with a single overdose of barbiturates, the same way that vets put animals to sleep.

Meanwhile, the fear of executing the wrong person has caused death-penalty appeals to grow costlier and more complex. States with tight budgets are therefore executing fewer murderers. Georgia, for example, has delayed the murder trial of Brian Nichols, who is accused of shooting the judge and two others in open court in front of dozens of witnesses when he was previously on trial for rape. The evidence against Mr Nichols is as strong as it gets, but the state cannot afford to pay his defence lawyers. In all, 42 people have been put to death in America this year, down from a modern peak of 98 in 1999.

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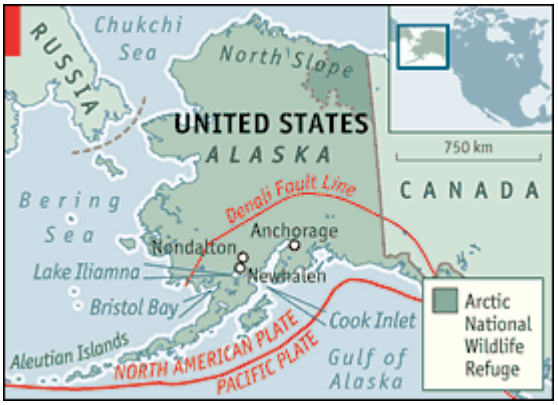
Mining in Alaska

Fishing for molybdenum

Nov 8th 2007 | NEWHALEN
From The Economist print edition

A two-mile wide problem



IT IS a short drive from the village of Newhalen, on the shore of Lake Iliamna in south-western Alaska, to Nondalton, about 15 miles (24km) away. At least, it would be short if there was a road. Instead, supplies to the settlement have to be flown in or ferried upriver. Like much of the state, this area—about 250 miles south-west of Anchorage—is wild and undeveloped, a vast plain of rolling tundra, pristine forests and braided rivers.

This is why sportsmen go there, some of them paying as much as $8,000 per week to fish or hunt. More important, the rivers that drain into nearby Bristol Bay support the biggest salmon run on earth. The salmon business is worth some $400m a year, employs 10,000 people, and has sustained dozens of native settlements and their way of life for generations.

But more glitters there than the silvery shapes of sockeye salmon swimming upstream. Two mining companies, Northern Dynasty Minerals of Vancouver and Anglo American, based in London, are working together to develop claims in the area. If they succeed, the largest open-pit mine in North America, two miles wide and nearly 2,000 feet (600 metres) deep, will appear in the middle of this wilderness.

Together with an adjacent, perhaps even larger, underground mine, the complex could yield more than $300 billion-worth of gold, silver, copper and molybdenum at today's commodity prices. A highway will link the mine to a proposed port 100 miles away on Cook Inlet. The resulting 2.5 billion tons of waste rock and toxic residue will be shovelled into two valleys and contained in perpetuity behind two huge earthen dams, each larger than the Three Gorges dam in China. But there is a snag: Pebble Mine, as the project is known, would sit in an active fault zone which, in 1964, produced the largest earthquake ever recorded in the northern hemisphere.

A coalition of conservationists, native groups and commercial and sport-fishing organisations has formed to oppose the mine. Members claim that the project will both damage the region and alter it forever. Northern Dynasty officials say the threat is overblown, and claim—heroically, perhaps—that mining and fishing can coexist. The mine complex, they say, will occupy less than 0.06% of the watershed that supports the fishery, and modern mining techniques will soften its impact. Besides, the mine will provide both a boost to the state's economy at a time when North Slope oil production is declining, and much-needed jobs in an area that suffers from 12% unemployment.

Although Northern Dynasty is months away even from applying to get a permit, the debate is already heated, with daily advertising in newspapers and on television, expensive lobbying campaigns and charges and counter-charges of impropriety. This kind of rancour is new for a state with a long and proud history of supporting development. Most Alaskans are in favour of drilling in the Arctic National Wildlife Refuge. The state has never refused a big mining permit. But even Alaskans who support development in

general and mining specifically are doubtful about Pebble Mine, among them the state's senior senator, Ted Stevens, whose ties to the fishing industry are almost as strong as his links to the state's oil companies.

And the Pebble Mine debate may be only the start. Eight other companies have asserted mining rights over more than 700 square miles (1,800 square km) nearby, and the Bureau of Land Management is considering opening another 3,300 square miles of federal land in the area to mining. With so much land and so little infrastructure (there are fewer miles of public access roads in all Alaska than in Vermont, which is a sixtieth of its size) Alaskans have long felt immune from the kind of environmental trade-offs Americans in the lower 48 have grown used to. Now, their state suddenly feels a bit smaller.

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Hunting

The declining Nimrod

Nov 8th 2007 | SEATTLE
From The Economist print edition

Bad news for elks and Republicans

ACROSS America, and especially in the West, a rite of autumn has long been to spend a weekend in the hills or along lakes, rifle or even bow in hand, searching for a deer, elk, duck or goose.

It is a fairly solitary pursuit, but even so, hunters are lonelier these days. A decade ago some 14m Americans hunted. Today about 12.5m do, a drop of 10%. Even in states where the tradition is strongest, the numbers are down. In Wyoming, which teems with antelope, 69,000 hunters prowled the hills and rangelands in 1996; only about 50,000 will do so this year.

Why the drop? Many reasons are offered: fewer places to hunt thanks to development; reduced game numbers in some areas as resurgent cougars, bears and wolves grab their share; and busy schedules. The young, in particular, seem to prefer to stay by their computers rather than waiting in the freezing cold, to get a shot at an elk. And ranchers who once allowed hunters on their land for nothing now need the money, and may charge hundreds of dollars.

Ironically, the decline in hunting may not benefit wildlife. Hunters buy licences that typically cost up to $260 for the season. In Wyoming, as in other states, licence fees comprise 90% of the Fish and Game Department's $50m budget, which pays for scores of wildlife biologists and game wardens. Across most of the country animals such as deer and elk are far more common than they were a century ago.

Hunters, who are mostly male and often from rural areas, have also been a potent and conservative political force, and the core of the National Rifle Association (NRA). But their status as one of the Republican Party's most dependable battalions is under threat, and not just because of the decline in their numbers.

Tensions have flared recently between the rifle-wielders and the Republican top brass. In Wyoming and Colorado, hunters have opposed Bush administration efforts to expand oil- and gas-drilling. That has put them on the side of conspicuously leftish groups such as the Sierra Club. Astutely, too, the Democrats have fielded a few hunting candidates. Grover Norquist, a leading conservative and NRA board member, dismisses as “fantasy” the thought that hunters might defect in large numbers. The next election season will tell.

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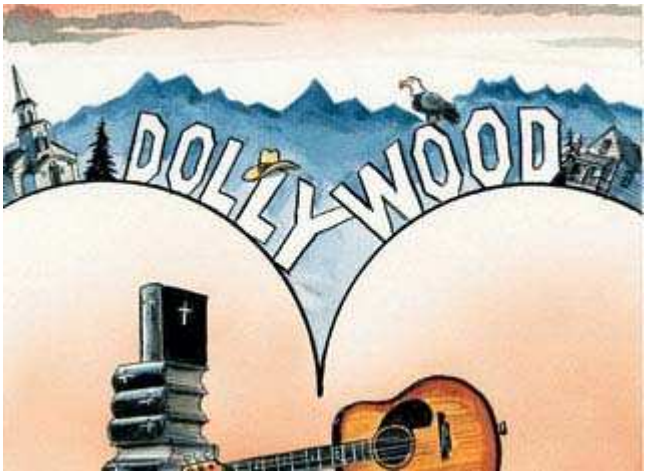
Lexington

Dollywood values

Nov 8th 2007
From The Economist print edition

What the Backwoods Barbie's theme park says about America

Illustration by Peter Schrank



NO ONE goes hungry at Dollywood. The cake stands at Dolly Parton's theme park in Tennessee sell slices of apple pie that weigh three pounds each, and that's before you bury them in ice cream. The mixed appetisers at the best restaurant consist of a heap of battered and deep-fried cauliflower florets, a mound of deep-fried cheese sticks and a pile of potatoes slathered in melted cheese. The next course might be a vast platter of southern-fried chicken. Only a real man still has room for apple pie after such a feast, but there are plenty of real men at Dollywood. And real women, too.

Dolly Parton's father was a semi-literate sharecropper, and she grew up in a one-room shack with ten siblings and no indoor plumbing. Yet by the time she was in her late 20s, she was in a position to tell Elvis Presley to get stuffed. The King wanted to cover one of her songs, “I Will Always Love You”. His agent demanded the usual terms, which included signing over half the rights to the tune itself. Ms Parton said no; a bold snub that made her millions. Her composition was a global smash. Whitney Houston's cover alone sold more than 10m copies. Saddam Hussein used an Arabic version as a campaign song in 2002, though it would be unfair to blame Ms Parton for his victory, since there was no one else on the ballot.

Having made a fortune from music and occasional movies, Ms Parton has ploughed a chunk of it back into the land where she grew up, near Pigeon Forge in the Great Smoky Mountains. The central attraction is Dollywood, which lures some 2m visitors a year. That is hardly world-beating—the Magic Kingdom at Walt Disney World had nearly 17m visitors last year. But Dollywood is a different kind of enterprise.

The theme-park industry has two tiers. The really big money is in what insiders call “destination” parks. These are so fancy and expensive that people fly thousands of miles to visit them. Asian governments invite Disney and Universal Studios to build ever-bigger parks on their territory in the hope that this will spark a tourist boom, which it usually does. Because they aim for a global audience, Hollywood theme parks tend to be spectacular but self-consciously inoffensive to all nationalities. To learn about the real America, you have to look at its smaller theme parks—the ones only Americans visit.

People do not fly to Dollywood; they drive there in big cars full of squabbling children. East-coast accents, let alone foreign ones, are rare. The park is thus an excellent window on what people in this part of the American heartland like. One thing they appear to like a lot is their country. The Liberty gift shop sells a staggering array of patriotic paraphernalia. You can buy a stars-and-stripes-decorated statuette of the Liberty Bell with an eagle perched on it. There are CDs of Ms Parton, also in red, white and blue, singing “God bless the USA”, and “My mom is a soldier” photo frames for kids whose mothers are in Iraq.

The park even has a sanctuary for bald eagles injured in the wild.

Another thing visitors to Dollywood feel strongly about is God. The park has a chapel, named after the doctor and part-time preacher who delivered baby Dolly for a bag of cornmeal. A bookshop manned by trainee preachers sells Bibles and Christian-themed novels. Employees at Dollywood are “not discouraged” from sharing their faith with customers, says a guide. And there is no alcohol on sale.

Lastly, the folks at Dollywood like to celebrate their own folk culture and music. Parts of the park looks like a 19th-century Appalachian town. You can watch real artisans blowing glass, making lye soap and carving chairs the old-fashioned way. Some have developed a country sales banter. “No cameras,” says Tom, who makes wooden wagons. “The law in Mississippi's still looking for me.”

Indigenous music is everywhere. In one corner is the Smoky Mountain String Band—three guys in blue dungarees with a banjo, fiddle and upright bass. In another is a bluegrass band called Naomi and the Wood Brothers. In Europe, exhibitions of traditional music and crafts tend to be subsidised and unpopular. At Dollywood, they are neither.

Rags to riches

Sophisticates sneer at Ms Parton's theme park. The *Daily Express*, a British paper owned by a man who also peddles pornography, calls it “tacky”. But the values it represents are as American as a 3lb-pound slice of apple pie. Dollywood's calorific abundance is quite healthy compared with Hershey Chocolate World in Pennsylvania. Its patriotism seems restrained next to the nearby Patriot Park, with its annual Patriot Festival. Its brand of Christianity is less in-your-face than, say, the Holy Land Experience in Florida. It is tolerant, too. Ms Parton has many gay fans, who hold unofficial get-togethers at her park. Her grandfather was a hellfire preacher, but Ms Parton has an empathy for sinners. As a girl, she thought the town hooker in her make-up and stilettos was the prettiest thing she had ever seen. “She was trash,” Ms Parton tells interviewers, “And I thought: That's what I want to be when I grow up.”

Most important, Dollywood offers a rags-to-riches tale with a simple happy ending. Ms Parton was born among the poorest whites in America. She had talent. She worked hard. She became fabulously rich and famous. The world's first cloned sheep was named after her (it was cloned from a mammary cell). Yet despite all the adulation, she is still married to the man she met outside a laundrette in Nashville 43 years ago, when she was 18. And her husband is such a down-to-earth fellow that he shuns the limelight entirely. If reporters arrive at the couple's front gate while he is in the garden and want to talk to him, he pretends to be the gardener. That may be too corny for Hollywood, but it resonates in the Great Smoky Mountains.

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Natural disasters

Protecting life but not yet livelihoods

Nov 8th 2007 | MEXICO CITY, PORT OF SPAIN AND VILLAHERMOSA
From The Economist print edition

Mexico's floods fit the pattern of this year's hurricane season: preparedness has restricted loss of life but not economic damage

Reuters

Things get ugly in Villahermosa

THE scale of it all is difficult to imagine. At the flood's height, over four-fifths of the state of Tabasco, in Mexico's south-east, was under water, damaging the homes of nearly a million people. Villahermosa, the low-lying capital, was inundated after the Grijalva river burst its banks. Canoes hit the roofs of buildings as they evacuated residents; higher ground became disjointed islands in a lake studded with tree-tops. Hundreds of people remain huddled inside the majestic cathedral in the town's centre. Outside the state governor's residence, tens of thousands queued day and night for bags of powdered milk, cereal and drinking water. There are over a hundred shelters in Villahermosa alone, the largest of which houses 4,000 people.

The governor, Andrés Granier, estimates the damage at $5 billion and says it will take months for Tabasco to recover. That timetable seems wildly optimistic. In a state where farming is important, crops and markets have been destroyed. The flooding also hit the still-poorer state of Chiapas. Felipe Calderón, Mexico's president, called it “one of the worst natural disasters in Mexican history” and announced a 7 billion peso ($650m) federal fund for reconstruction. Residents and businesses will be able to delay tax payments until June 2008. Previous Mexican governments have disdained private initiative in such matters, but Mr Calderón called on ordinary people to help, too. They did so, in an outpouring of aid from across the country.

Despite the flooding's catastrophic scale, the death toll has been relatively light (perhaps 25). That was mainly because the waters rose slowly. But it also fits the pattern of this year's hurricane season in Mexico, Central America and the Caribbean. So far there have been five Atlantic hurricanes, of which two were of maximum strength. (The Tabasco floods were caused by unremitting rain from a tropical depression, rather than a hurricane.) Mercifully, the loss of life has been limited.

In 1998 Hurricane Mitch killed more than 11,000 people in Central America. Since then Mexico and its neighbours have made “giant advances” in their civil protection systems, says Walter Wintzer, who heads the Co-ordination Centre for the Prevention of Natural Disasters in Central America, an inter-governmental body based in Guatemala. The main improvement has been in evacuating residents when hurricanes approach.

Before Hurricane Felix struck in September, Honduran officials managed to evacuate 25,000 people from the poor Caribbean coast. Because their counterparts in Nicaragua found it harder to convince the Miskito Indians to leave their scattered coastal villages, 332 people were left dead or missing there in this year's worst loss of life. In Haiti and the Dominican Republic, too, where Hurricane Noel killed some 150 people, procedures are far from perfect. And some disasters strike almost without warning: that is true of earthquakes and of landslides, such as one in Chiapas this week that killed a score of people.

Emergency aid has also improved, thanks partly to better technology. In Puerto Cabezas, the regional capital closest to Felix's landfall, international aid workers and those from Nicaragua's government congregate with laptops and wireless internet, organising the distribution of food and supplies.

It is harder to mitigate the immense economic damage natural disasters inflict. Ramón Arnesto, who heads Nicaragua's disaster-relief agency, says that Felix deprived 200,000 people of their houses or fields. Because the staple crop on the Mosquito coast is coconut palm, it will take at least five years until villagers can regain their previous living standards. Bananas, a staple across the Caribbean, grow back faster, but new plants still take almost a year to bear fruit.

In Sandy Bay, the hardest-hit Nicaraguan village, six weeks after the hurricane trees were still strewn like a child's toys across the landscape. Almost all the houses still standing have temporary tarpaulins in place of their missing roofs, and lack power: fires made from the fallen trees eerily illuminate the landscape.

One way to reduce the economic cost would be through better planning of human settlement, avoiding the riskiest areas. In Jamaica, officials talk of creating “no-build” zones in exposed coastal areas. But in many countries authorities have no powers to prevent building in vulnerable spots. Jessica Faieta, a United Nations official in El Salvador, notes that the country in the region with the best disaster-preparedness and response plans is Cuba. There is a trade-off between liberty and effectiveness, she points out. In contrast to Hispaniola, there were no reported deaths from Noel in Cuba,

If prevention is hard, there is scope to mitigate the economic impact of disasters. Even after Hurricane Katrina, most Americans can get hurricane insurance, thanks to government guarantees. In Central America such protection is in its infancy. When they are asked whether they have insurance, residents of Villahermosa just laugh.

The Caribbean Community has made more progress: 16 of its member- or associated states have joined a new Caribbean Catastrophe Risk Insurance Facility, a scheme organised by the World Bank after Hurricane Ivan caused severe economic damage in several islands in 2004. They include Haiti, the poorest country in the Americas, as well as several very small island states.

The member governments have stumped up $40m in premiums and start-up fees. Payouts are based on the intensity of storms or earthquakes, rather than the number of buildings destroyed. It is hoped that this will discourage building in areas of high risk. The cover falls far short of replacement value but the scheme is designed to pay out quickly, acting as a bridge between emergency help and long-term rebuilding.

Almost a decade after Hurricane Mitch, governments have learned how to save more lives. The next task is to safeguard livelihoods, especially since many scientists predict that climate change is likely to increase the frequency and intensity of hurricanes.

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Bolivia

Revolution postponed

Nov 8th 2007 | LA PAZ
From The Economist print edition

A popular president deadlocked by a determined opposition

Get article background

Reuters

Morales, all dressed-up but going nowhere

DEADLINES have come and gone but after 15 months of deliberations an elected Constituent Assembly seems nowhere near agreeing the text of a new constitution for Bolivia. That is a matter of growing frustration for the supporters of President Evo Morales, who set up the assembly. He promised that the new constitution would enshrine the rights of Bolivians of Andean Indian descent to land and autonomy, and uphold a socialist economy with state control over national resources.

But the assembly has become deadlocked, reflecting Bolivia's political divide. Although the mountainous and mainly-Indian west is solidly behind Mr Morales, the commercially-minded, whiter lowland east is bitterly opposed to him. The president's supporters in the Movement to Socialism (MAS) have a majority, but not the two-thirds required to impose their text. So the opposition has been able to stall the assembly.

Behind all the constitutional verbiage the main dispute is over money. Bolivia's natural-gas deposits are in the opposition-controlled east. The opposition wants the new constitution to uphold regional autonomy and guarantee its regional governments a large chunk of gas royalties. Indigenous leaders want similar autonomy, but the government wants to secure greater central control of gas revenues.

Last month similar tensions surfaced in a dispute over whether airports should be run locally or from the centre. This culminated in Mr Morales sending the army to secure the country's busiest airport, in the eastern city of Santa Cruz. When that triggered mass protests in the city, the president backed down.

Mr Morales then promptly announced a big cut in transfers of gas revenues to regional governments in order to pay—and increase by a third—an annuity received by all Bolivians aged over 60. This was originally paid, only to those over 65, out of the dividends from the government's shares in privatised hydrocarbons companies. But Mr Morales transferred these shares to the revived state oil company as part of his scheme to renationalise the industry. The increase in the annuity is popular: indeed, the president led a celebratory march by pensioners through Santa Cruz.

The new constitution has also become hostage to an unexpected source of opposition. The assembly sits in Sucre, a small central city which is the seat of the judiciary and was the capital until displaced by La Paz more than a century ago. Sucre wants its status restored. Ugly protests in the city prompted the assembly in September to suspend its public sessions. The government is seeking alternative venues.

Despite his radical talk, Mr Morales has a pragmatic streak derived from his years as leader of a trade union of coca workers. His vice-president, Álvaro García Linera, spent October negotiating tentative agreements with the opposition on the autonomy question and on the constitution's economic chapters. On paper, it is not hard to see a compromise in which the opposition accepts Mr Morales's desire to be allowed to run for a second consecutive term in return for guarantees of regional autonomy and a deal on money.

But the opposition remains suspicious of Mr Morales's intentions. Its leaders are alarmed by his close friendship with Venezuela's socialist president, Hugo Chávez. Venezuela has become a big aid donor. Venezuelan lawyers are reported to be drafting government decrees. According to television pictures

broadcast by an opposition station, the troops who took over Santa Cruz airport included at least two in Venezuelan uniforms.

The latest deadline for the assembly to agree the constitutional text is December 14th. Few involved on either side will bet on agreement being reached. But Mr Morales remains popular: polls suggest he has the support of at least 60% of Bolivians. One way or another he seems likely to get his way—or most of it—in the end.

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Politics in Brazil

Laws for the lawmakers

Nov 8th 2007 | BRASÍLIA
From The Economist print edition

The judges breathe new life into political reform

Get article background

THE president of Brazil sits at the top of one of the great spoils systems in democratic politics. In addition to the usual power to place allies in ministries, he has more than 20,000 jobs in his gift, including some corner offices in state-controlled companies such as Petrobras, Brazil's energy giant. The political value of these baubles is all the greater since presidents must work hard to command a working majority in the federal Congress, where none of the 20 parties represented holds more than 18% of the seats.

In Luiz Inácio Lula da Silva's first term as president, even those powers of patronage proved insufficient for his government. Officials resorted to illegal payments to legislators to keep a loose coalition together. In the aftermath of this scandal Lula, who was elected for a second term last year, promised to champion a reform of the political system. Surprisingly, there are some signs of progress on this—but mainly from the courts.

In a landmark judgement last month, the supreme court upheld a ruling in March by the federal electoral tribunal which outlawed party switching. This political infidelity is a chronic Brazilian vice. Some 36% of members of the lower house have switched their loyalties over the past 16 years, some of them several times during a single term, according to Octavio Neto of the Fundação Getulio Vargas, a business school. Candidates elected for the opposition often move to pro-government groups in return for budget approval for pet projects in their home states.

In a suit brought by disgruntled opposition parties, the court ruled that votes belong to parties, not individual representatives. Deputies who have switched since March (and some did) could now be stripped of their mandates.

The supreme court ruling “has completely changed the atmosphere,” says Marco Maciel, a senator for the opposition Democrats. It has given fresh wind to attempts to legislate changes in the political system. But progress will not be immediate. The Senate has been distracted by the tenacious attempts by its president, Renan Calheiros, to hang on to his job in the face of corruption allegations.

Another useful change would be to limit the number of parties by fixing a minimum threshold of votes to get seats in Congress. The electoral tribunal ruled in favour of this last year, but was overruled by Congress. Since Lula's coalition depends on the support of many minnows, it is unlikely to back such a threshold.

The same brake applies to reform of party funding. Most Brazilian elections are very competitive, and therefore also very expensive. A study by David Samuels, a political scientist at the University of Minnesota, found that in the 1994 election, federal deputies spent an average of $132,000 (at 1998 prices) to get elected, compared with $530,000 for a member of the United States House of Representatives.

A string of party financing scandals threatens to cut the flow of private funds to campaigns. Ronaldo Caiado, a deputy for the Democrats (who take a particular interest in political reform), has introduced a bill to ban private funding, replacing it with a government grant linked to votes received in the last election. Mr Caiado says that since the supreme court's ruling on party switching, the government has expressed some interest in this, though he is not holding his breath.

Perhaps the most important change would be to reform the electoral system. At the moment each state acts as a single constituency. In São Paulo's case, that means that 70 deputies represent some 40m people. Accountability to voters is tenuous. Many political scientists favour a system with smaller

constituencies. Another problem is that São Paulo and other more developed states are relatively under-represented. But such changes require constitutional amendments.

The people who sit in the political institutions also need some re-engineering. Plenty of them control radio stations and television channels in their home states (concessions are handed out by the Senate). Others take advantage of their office to evade prosecution. A reminder of this came last month when Ronaldo Cunha Lima, a deputy for the opposition Party of Brazilian Social Democracy (PSDB), resigned as the supreme court was about to rule on a case in which he shot a rival politician in 1993. His resignation will start the legal process all over again.

Anyone tempted to conclude from all this that Brazil's democracy, the world's fourth largest, is uniquely troubled might look at the biggest. In India in 2004 almost 100 sitting members of parliament faced charges for one or more crimes. Keeping big democracies together is a messy business, and Brazil's is no exception.

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Guatemala

At least there's hope

Nov 8th 2007 | GUATEMALA CITY
From The Economist print edition

A half-hearted mandate for Colom

Get article background

IN THE end Álvaro Colom may have won the presidency at the third attempt because of who he was not. His opponent in a run-off ballot on November 4th, Otto Pérez Molina, a former general of martial assurance, had campaigned for a “firm hand” against crime. In a violent country, that had seemed to give him momentum. But Mr Colom, a businessman with a reticent, patrician air, won 53% of the vote.

Mr Colom struck some social-democratic notes, saying he would spend more to fight poverty and that his government would have “a Mayan face”, in a reference to the large indigenous population. But not to be outflanked by his opponent, he also said he would use the army for policing duties.

Nobody could accuse Mr Colom of being a rabble-rouser. He is gawky and wonkish. His vice-president is a heart surgeon who has spent the past 40 years living in the United States. Despite their victory Mr Colom's mandate is a weak one. Only 48% of registered voters went to the polls. His loose party, the National Union of Hope, will control only 52 of the 158 seats in Congress.

Guatemala could certainly use some more hope. The outgoing government of Oscar Berger presided over an uptick in economic growth and made valiant efforts to strengthen the country's institutions. But organised crime, discrimination, poverty and insufficient tax revenues to fund a modern state are intractable problems. At least in rejecting General Pérez a majority of those who voted seem to have recognised that Guatemala needs something more sophisticated than mere repression.

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China

Beware of demob

Nov 8th 2007 | YANTAI
From The Economist print edition

Reuters

A reserve army of unemployed ex-servicemen worries China's leaders

Get article background

IT IS the army's recruitment season in Yantai, a port in Shandong province in northern China. A poster in one fishing village calls on citizens to report any attempt to secure one of the coveted vacancies by paying bribes or forging papers. But the Yantai authorities are far more worried about what happens when servicemen are discharged. Here and elsewhere angry ex-soldiers have been taking to the streets.

Over the past couple of years protests by demobilised soldiers have become a potent challenge to local governments trying to keep the lid on unrest during a period of wrenching social and economic change. The unrest has embarrassed the ruling Communist Party, which came to power militarily and might have fallen in 1989 but for the army's crushing of pro-democracy protests in Tiananmen Square.

The ex-servicemen's main grievance is the difficulty of settling back into civilian life. Most soldiers from towns are assigned jobs in the civilian sector when they leave the army. But this has become increasingly difficult because of the dismantling of state-owned enterprises (SOEs) in recent years and the resentment of surviving SOEs at having ex-soldiers foisted on them. Rural soldiers—the bulk of the non-officer ranks—are being sent back to villages where there is next to nothing to do.

In Yantai around 2,000 ex-soldiers gathered in mid-July outside the local legislature to demand better benefits. They also wanted to make the point that the toothless legislature should be doing a better job of supervising the government. The Yantai authorities responded unfavourably. Activists say that police have stepped up surveillance of their homes and that plainclothes officers often follow them. Police broke up your correspondent's meeting with a group of ex-servicemen, on the pretext of a passport check.

Despite the harassment, unrest has continued. On September 19th several hundred protesters, including former servicemen from across Shandong, gathered outside the provincial government headquarters in the capital, Jinan, say activists in Yantai. In early September apparently co-ordinated unrest broke out in at least three cities in other provinces. Hundreds of ex-soldiers rampaged through centres run by the Ministry of Railways where they were undergoing training. The activist say that last week around 300 ex-servicemen protested outside the city government's offices in Tai'an, also in Shandong.

Veterans have also taken their grievances to Beijing. In April 2005 hundreds of them from around the country, some dressed in their old uniforms, staged sit-ins outside the army's General Political Department, responsible for demobilised soldiers. Such big gatherings outside a sensitive official building are highly unusual in the capital. But smaller groups of ex-army petitioners still visit, despite efforts by

police to round them up and send them back to their hometowns.

China is no stranger to protests. Thousands occur every year involving disparate groups of people: peasants enraged at being turfed off their land by local governments; city-dwellers whose houses are being bulldozed to make way for development; migrant workers complaining about not being paid; and workers laid off from SOEs. But these demonstrations are usually poorly organised, ill co-ordinated and easily contained by local governments.

Given the army's vital importance to the maintenance of party rule, the official press is especially reticent about publicising unrest among ex-servicemen. Chinese academics rarely mention the topic. But in an article that appeared in the spring edition of *China Security*, a quarterly published in Washington, DC, Yu Jianrong of the Chinese Academy of Social Sciences said that demobilised soldiers could act as a “bond” to bring together isolated disaffected groups. Mr Yu said ex-servicemen in the countryside, who he said numbered 20m, had the “social capital, organisational, networking and mobilisation capabilities to be the bridge between workers and peasants”. In the southern province of Hunan, he said, veterans had formed an “anti-corruption brigade” including laid-off workers, peasants and intellectuals of 100,000 members. This number is unverifiable, given the underground nature of any such movement.

Party leaders have called on local governments to give priority to keeping veterans happy. But this is not easy. In addition to the regular turnover, hundreds of thousands have been demobilised in recent years as a result of efforts to trim the military's enormous size. In the decade up to 2004, some 7m enlisted people left the military. Another 600,000 officers were given jobs in the civilian sector. Between 2003 and 2005 the army was trimmed by some 200,000 people, leaving it 2.3m-strong.

Local governments are supposed to find jobs for ex-officers. Since 2001, in response to dwindling opportunities in the state sector, the central government has been encouraging officers to accept cash pay-outs and find their own work. But local governments do not have enough cash to provide much of a cushion. The majority of officers apparently still prefer the supposedly safer option of being assigned positions. *Xinhua*, a state-run news agency, said in September that 256,000 officers had been given civilian jobs in the past three years. Only 49,000 had chosen to find work by themselves. Despite government promises of employment, veterans complain, some end up destitute.

Hu Xingdou, of the Beijing Institute of Technology, says peasant-soldiers are the government's biggest headache. Taught idealism in the army, he says, they go back to no work and a countryside rife with corruption. Former soldiers, he says, are often at the forefront of peasant unrest. Let the party beware.

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China

Beaten black or blue

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A new game to play in Beijing's traffic jams

EFFORTS to restrict the movement of foreigners within China's borders have been all but abandoned in recent years. But one vestige of this policy has doggedly persisted: special licence-plates identifying foreigners' cars. From November 1st these have at last been scrapped. But China's traffic bureaucrats are finding it hard to let go.

For decades cars owned by foreign companies or individuals have had to use black licence-plates. These stand out from the blue plates now used by most civilian vehicles (there are other colours, too: eg, white for the police and army, and yellow for big lorries).

The black plates were originally intended to make it easier for the police to identify foreign-owned vehicles and stop them from entering restricted areas. In the 1980s large swathes of China were off-limits to foreigners. These were often areas used by the army or considered too embarrassingly backward for foreigners to see. Roads in the countryside around Beijing were dotted with signs telling foreigners to proceed no further. By 2005, however, official press reports said only 8% of the country was still off-limits to foreigners.

The status of the black licence-plates has changed too. When they were introduced almost all other passenger cars were for official use. But in the past few years private-car ownership has grown rapidly. Members of China's burgeoning middle-class have come to covet black plates. They suggest status and overseas connections. Traffic police sometimes turn a blind eye to transgressions by black-plated cars (perhaps to avoid the embarrassment of conversing in a foreign tongue). Other drivers are often treated by the police with disdain.

This fuelled a black-plate black market. Many try to register their vehicles as foreign-owned, and many black-plated cars now have at best tenuous foreign connections. From this month, however, foreigners all get blue plates too. Only diplomats still get special ones, marked by a character meaning “envoy”.

But vehicular discrimination survives. Cars with black plates can keep them. And the discerning motorist (and policeman) will still spot a foreigner's blue plate. In Beijing they all bear the letters LB. This will make foreigners' cars easier to manage, the police are quoted as saying. Black marketeers can rest easy.

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Japan's opposition party

Ichiro the destroyer

Nov 8th 2007 | TOKYO
From The Economist print edition

Staid Japanese politics suffers a jolt of the confrontational and unexpected

AFP

Ozawa: man of many faces

Get article background

POLITICS in Japan is typically slow and steady. But in just four days this week, Ichiro Ozawa, the leader of the main opposition Democratic Party of Japan (DPJ), betrayed his own party, resigned over it and dismissed the party's ability to govern or win a general election. Yet party leaders begged him to return, and he did. Stranger still, Mr Ozawa's antics followed a triumph in July, when he led the DPJ to its most impressive electoral victory, winning control for the first time of the upper house of the Diet (parliament).

All of this reflects a new phenomenon: polarising party politics. After more than 50 years of near-continuous rule by the Liberal Democratic Party (LDP), Japanese political culture has almost no experience of dealing with this. In the past, the main adversaries were within the LDP: powerful factions that needed to be placated with power and funds for patronage. Dealing with small opposition parties was easy. They posed little threat. The cohabitation or “twisted Diet” since July has resulted in a political deadlock. Not a single law has been passed.

Mr Ozawa's resignation offer came on November 4th. He had, he lamented, created “political confusion”. DPJ members were outraged that in closed-door discussions with Yasuo Fukuda, the prime minister, he had entertained the idea of forming a “grand coalition” with his LDP. This smacked of betrayal. The DPJ won its mandate in July by arguing that only by throwing out the LDP could Japan truly change. Opinion polls suggest a majority of the public also oppose such a coalition.

In explaining his resignation, Mr Ozawa managed to insult his own party. The DPJ, he said, “lacks capability” to govern, and would find it difficult to win the more powerful lower house in the election due by September 2009. Only by joining government might the DPJ win the public's trust, he concluded.

He had a point. The DPJ's obstructive stance is likely to backfire. It even sparked the abrupt resignation of Shinzo Abe, prime minister until September, when it became clear that the DPJ would block the extension of a law authorising the Japanese navy's support for America's military operation in Afghanistan by refuelling ships in the Indian Ocean. On November 1st the ships sailed home.

Mr Ozawa is an unappealing but pivotal figure in Japanese politics. After breaking from the LDP, where he had been a rising star, he formed an opposition party that resulted, briefly, in the only non-LDP government that ruled for eight months in 1993-94. Later in the 1990s Mr Ozawa led—and often tore apart—a number of parties. With a reputation for arrogance, stubbornness and backroom dealing, he

earned the nickname “the Destroyer”, because of the damage he inflicted on his own side. Indeed, the DPJ sought to keep Mr Ozawa this week for fear he might otherwise lure some DPJ members into a new party that would ally with the LDP, and lose the party its control of the upper house.

For decades the parties were able to manage Diet strategy through a process called *kokutai seiji*, ie, basically private dealings among party elders. Ostensibly, policymaking is now more transparent. But the reality is that nothing has yet replaced the old ways. So Mr Ozawa and Mr Fukuda—old-time LDP politicians—tried to do what they do best: a backroom deal.

Without a way for the LDP and DPJ to overcome policy differences and pass laws, paralysis will continue. Already, a host of bills is stalled. Most prominent is the “anti-terrorism” law to let Japan's Self-Defence Forces be deployed overseas—the issue that brought down Mr Abe. The DPJ opposes the refuelling, claiming it violates Japan's pacifist constitution. This week it put forward a proposal that would allow the army to be sent abroad for humanitarian and infrastructure work under a United Nations mandate.

The matter is far from a priority for ordinary Japanese, who tend to be more worried about the economic gap between rural and urban centres, and about fixing the pension system. Meanwhile, debate over a bill to control the influence of money on politics has stalled. This is a big issue. For two weeks the public has been treated to daily disclosures of financial improprieties by a former deputy minister of defence. But late this week the parties were co-operating enough for some bills, eg, on the minimum wage and labour standards, to make progress.

Rather than try to win a true mandate through a general election in the lower house, both parties want to delay polls as long as possible. The DPJ, looking even less fit for power after this week's shenanigans, knows it would not win. The LDP sensibly frets that it would lose the two-thirds majority that lets it override the upper house controlled by the DPJ. Moreover, both parties are so internally divided between conservatives and liberals that they seem on the point of unravelling. Japanese politics, traditionally cosily predictable, has become unfathomable.

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Bangladesh

The clean-up

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From The Economist print edition

The costs of fighting corruption

Get article background

“THE problem is that the mafia in Bangladesh were the political parties,” correctly observes a political analyst stuck in one of Dhaka's notorious traffic jams. At the roadside, the billboards—once a thriving business run by Tarique Rahman, the elder son of Khaleda Zia, prime minister until October last year—are empty. The luxury cars that used to ply the streets carrying bodyguards protecting members of the former kleptocratic elite are nowhere to be seen. Ten months into Bangladesh's state of emergency, the army-backed government is making headway in its drive to crush the two patronage-based personality cults that used to constitute Bangladeshi politics.

Both the heads of the two main political dynasties, Mrs Zia of the Bangladesh Nationalist Party and Sheikh Hasina Wajed of the Awami League, are in detention, along with more than a dozen former cabinet ministers. The bosses of many big companies are also in the clink or on the run. Senior officials say that some 200 top-level targets are being prosecuted.

This week the president of the World Bank, Robert Zoellick, in the course of a “listening tour” in South Asia, came to monitor progress in a country where, until recently, dishonesty in public life was so prevalent that Bangladesh regularly topped the world's corruption league tables. The institution Mr Zoellick heads is not well liked here. Economic nationalism is strong; the bashing of multilateral lenders is a hobby of the chattering classes. Even the country's foremost economist, a Nobel prize-winning microcredit pioneer, Mohammad Yunus, had few kind words for the bank. Following a meeting with Mr Zoellick, he told reporters that it should sharply increase the proportion of its total lending devoted to microcredit programmes. Mr Yunus also called for institutional reform of the bank, whose country offices “are working like post offices waiting for directives from headquarters”.

Despite all this, aid is piling in. Soon after “1/11”, as Bangladeshis call the declaration of a state of emergency on January 11th this year, donors saw a window of opportunity to speed up the process of turning impoverished Bangladesh into a middle-income country.

Just this week the Asian Development Bank approved a $150m loan for a good-governance programme. Much of the money will go towards strengthening one of the country's busiest institutions—the Anti-Corruption Commission. It is a race against time, says its head, Hasan Masud Chowdhury. According to its swanky new brochure, the commission aims to build a reputation of being able, like the Mounties, always to get its men. Since it is equipped with sweeping emergency powers to arrest, search and detain, there is little doubt that it will. Five special courts are not enough to deal with the flood of cases, and more are being created.

The politicians are due back in less than 12 months, by when the interim administration has promised to hold general elections. Shamsul Huda, who heads the election commission, insists that it will be ready. Progress has been made on creating a new voters' list (complete with photographs) of some 80.5m names. The commissioner wants the government to lift the state of emergency in January, two months before elections are scheduled for five municipal corporations (former “dens of corruption”, Mr Huda calls them).

Meanwhile, the negative short-term consequences of the anti-corruption drive have become apparent. Foreign and domestic investment has stalled. Garment exports have plummeted. Last week the central bank sold $80m of its foreign reserves to finance oil imports. Strong remittances keep the economy afloat. But inflation is at a ten-year high. Student-led riots flared in August. The next flashpoint may not be far off.

For the regime, the anti-graft drive has had some useful side-effects. The intelligence services are

systematically acquiring shares in private media companies, by offering the release from detention of their owners in return. Mr Zoellick called for a transparent battle against corruption, consistent with the rule of law. That will be a long, hard struggle in Bangladesh.

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Sri Lanka

Death of a Tiger

Nov 8th 2007 | COLOMBO
From The Economist print edition

The government scents victory; to others, it smells like prolonged war

Reuters

Prabhakaran mourns a cub

Get article background

THE Sri Lankan government, and the majority ethnic-Sinhalese population that backs it, are gloating over the death of S.P. Tamilselvan, political commissar of the Liberation Tigers of Tamil Eelam, in an air raid on November 2nd. To them it is proof that the Sri Lankan army has gained the upper hand under the leadership of Mahinda Rajapaksa, the president, and his brother, Gotabhaya, the defence secretary. They believe the latter's boast that his forces know the whereabouts of the Tigers' leaders, and that they will be killed one by one. To government loyalists, Sri Lanka is well on the road to an “honourable peace” in its 25-year war, based on the total defeat of the Tigers, who have been fighting for an independent Tamil homeland in the north-east of the island.

Things look very different to neutral observers. They see an accentuation of the Sinhalese-Tamil divide, not its mitigation; an escalation of the war, which saw fierce fighting in the north on November 7th; and a further setback to efforts to reopen peace talks and draft a devolution package that would satisfy moderate Tamils. They also point out that the Tigers' daring assault on the Anuradhapura air-base last month, in which 24 out of 27 aircraft were either destroyed or damaged, showed they could infiltrate, stalk and maul a prized prey in the Sinhalese heartland.

The government paints Tamilselvan as not a politician but a soldier, whose elimination was justified by the norms of war. Only recently, he had commanded Tiger soldiers in the northern theatre. Keheliya Rumbukwella, a government spokesman, alleged that, during peace talks abroad, Tamilselvan had clandestinely negotiated arms deals. And while the government wanted to discuss the core political issues in the ethnic conflict, Tamilselvan raised peripheral issues to derail the talks.

Ordinary Tamils are too scared to comment. But their leaders insist that Tamilselvan was a political leader and not a legitimate military target. Tamil newspapers said that his “assassination” could kill peace efforts and intensify the war in the north and east, where hundreds of Tamils, and many Muslims, have been killed in the past year, and about 300,000 displaced by shelling and air-raids.

If the government is gearing up for war in the Tigers' northern strongholds, the Tigers are breathing fire too. Their brutal leader, Velupillai Prabhakaran, said the assassination had only strengthened the group's resolve. The fear is of renewed terrorist attacks in the south, especially in Colombo, the capital, where

President Rajapaksa has ordered a tightening of security.

One disturbing development is a revival of interest in Sri Lanka's Tamil issue in the Indian state of Tamil Nadu, just across the 30km-wide (19-mile) Palk Strait. In the 1980s, its Tamils, now numbering some 60m, helped house, finance, train and arm Sri Lankan Tamil militants. The state's chief minister, M. Karunanidhi, opened a can of worms by penning a poem praising Tamilselvan and talking of the “Tamil brotherhood” binding Tamils across the globe. This revived memories of the late 1980s, when he was also chief minister and openly supported the Tigers.

The main opposition party in Tamil Nadu, the All-India Anna Dravida Munnetra Kazhagam, condemned Mr Karunanidhi's condolence message, saying that he had broken the law by praising a member of a proscribed group. The Tigers were banned in India after the assassination of Rajiv Gandhi, a former prime minister, in 1991. Tamilselvan's death has revived the issue of Tamil ethnicity in Tamil Nadu, which could help whip up support for the Tigers there. This is worrying Sri Lanka. At least one newspaper has asked the government to take the matter up in Delhi.

Meanwhile, the detention in London, on a charge of travelling on a forged passport, of the former Tiger commander known as Colonel Karuna, was another cloud for the government. Colonel Karuna split from the Tigers in 2004. The United Nations and human-rights groups have since accused the government of complicity in crimes committed by him in Tamil-speaking parts of eastern Sri Lanka. He is alleged to have extorted money and recruited children for his armed group, which is alleged to have army backing.

He was reportedly allowed to leave Sri Lanka clandestinely, as he had become an embarrassment to the government. But on going to join his wife and children in London he was detained by the immigration authorities. As human-rights groups pursue him, he risks a high-profile investigation and trial that might embarrass both his former Tiger comrades and his new government masters.

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North Korea's nuclear programmes

Getting technical

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From The Economist print edition

The devil in the nuclear detail

Get article background

AFTER 15 years of trying, the effort to prise North Korea out of the bomb-making business has just got encouragingly technical. A team of experts, led by America, started work on November 5th to disable three of North Korea's nuclear facilities at Yongbyon: the reactor, the nearby plant that fabricates natural uranium into fuel for the reactor core and the chemical reprocessing plant where bomb-usable plutonium is separated from the spent fuel-rods. The work should be finished by year's end, when North Korea is also supposed to have made a clean breast of other nefarious nuclear activities. Then talks among the six countries involved—including South Korea, Japan, China and Russia—can turn to dismantling Yongbyon, and to North Korea's promised disarmament.

But will North Korea really give up the estimated 50kg (110lbs) of separated plutonium (enough for at least 6-8 bombs) it is thought to have squirrelled away? By getting down, literally, to nuts and bolts at Yongbyon, the six-party process has got a crucial step further towards that disarmament goal than previous efforts. Under a 1994 deal with the Clinton administration, North Korea agreed merely to freeze operations at Yongbyon, while America, South Korea and Japan laboured to build two Western-designed, less proliferation-prone reactors as a huge bribe. The deal fell apart in 2002, when America confronted North Korea with evidence of its cheating: a parallel effort to produce enriched uranium, another possible bomb ingredient.

At six-party talks in February, North Korea accepted the equivalent of 1m tonnes of heavy fuel-oil (some of it in other forms of energy assistance) for disabling Yongbyon. Once disabled, says America's chief negotiator, it would take North Korea at least a year to get the plutonium-producing reactor up and running again.

Of course, with the nuclear stash he already has, North Korea's Kim Jong Il might not be fussed at such a delay. And much could go wrong from here. One difficulty lies in the six-party complexities. But other problems already loom.

It was a badly-behaving North Korea—in October 2006 it conducted a provocative bomb test—that persuaded the other five to back tough sanctions, helping the February deal to fruition. Now nuclear progress brings its own worries.

South Korea is straining to push through economic and other deals with North Korea, fearing that a speedy rapprochement between prickly Mr Kim and America will reduce its own leverage over the North. America worries that such generosity could weaken Mr Kim's incentive to stay on the nuclear straight and narrow. Japan, meanwhile, is anxious that America, in pursuit of nuclear progress, will remove North Korea from its terrorism blacklist before Mr Kim has come up with information Japan wants about its citizens abducted to North Korea in the past. It refuses to stump up towards energy aid, but may contribute to the disabling costs.

North Korea, though, still has to produce its list of weapons programmes (to include any uranium dabbling). A first draft is expected shortly. George Bush has said it must also include nuclear assistance Mr Kim has given to others. Some nuclear material was discovered in Libya several years ago of possible North Korean origin. And America and Israel reportedly think the list should also include Syria. An Israeli air raid in September is thought to have targeted a nuclear site—possibly a building to house a reactor—being built with North Korean assistance. Syria has bought missiles from North Korea, but both deny nuclear co-operation.

There might be more. Before talk of a Syrian connection, an article in the March issue of *Arms Control Today* by Siegfried Hecker and William Liou listed the many ways North Korea's nuclear expertise could be

of use to Iran, which also has suspect nuclear ambitions. Mr Kim co-operates closely with Iran on missile development, and most recently supplied it with nuclear-capable missiles able to fly 2,500km (1,150 miles). He has also helped it build secretive underground tunnels.

A North Korean list devoid of all outside nuclear connections would be one damaging development; full disclosure could be another sort of bombshell.

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Nepal's peace process

In limbo

Nov 8th 2007 | KATHMANDU
From The Economist print edition

Neither very peaceful, nor in process

A MONTH after the abduction of a journalist, Birendra Sah, in the district of Bara in southern Nepal, three Maoist parliamentarians this week announced the findings of their own inquiry into the affair. They concluded that two local Maoist officials had shot Mr Sah dead, on the orders of their local superior but outside party policy. This followed weeks of obfuscation from the Maoist leadership and the government and came after Mr Sah's weeping wife appeared in public in Kathmandu.

Although last year's peace agreement officially ended the Maoist insurrection, abductions, threats and violence have continued. The Terai, the southern plain, is now the most violent part of Nepal. Perpetrators include the Maoists, a string of new militant and criminal groups, and the army and police. There are now more than 20 Terai factions, mostly claiming to espouse the rights of the marginalised southern peoples known as Madhesis. The daily litany of violence recalls the war years. In recent days a youth was burnt to death, a local politician had his throat slit and a bomb in the town of Birgunj killed one person.

The backdrop to this violence is renewed political stalemate. In October elections to a constituent assembly, planned for this month, were postponed indefinitely. The Maoists had earlier walked out of the interim cabinet. They had a long series of new demands, notably a system of proportional representation for the elections, and the immediate abolition of the monarchy.

The political limbo feeds the violence. It is rooted in the minorities' sense of continued discrimination; the politicians' obsession with short-term political gain; and the Maoists' failure so far to accept peaceful, competitive politics. As the Maoists struggle to overcome internal divisions between hardliners and pragmatists, their Young Communist League has revived their old system of parallel government and rough justice.

Many other questions remain unresolved. The United Nations mission in Nepal, UNMIN, is concerned about the prolonged confinement of former Maoist fighters in 28 camps. This week UNMIN's head, Ian Martin, offered to discuss a long-term solution for them and the Nepal Army, which under the peace accord is meant to become more inclusive. The army's hardliners, however, resent any hint of UN involvement.

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South Africa

Guess who's buying the press

Nov 8th 2007 | JOHANNESBURG
From The Economist print edition

AFP

The independence of South Africa's media is threatened by a takeover bid

Get article background

ON PAPER, there was nothing odd about Koni Media Holdings, a company with interests in advertising, wanting to buy Johnnic Communications, known as Johncom, one of South Africa's four leading media groups—except that the prospective buyers include several close allies of the president, Thabo Mbeki. One is his former chief of protocol, another is a special adviser. No less to the point, the newspapers they would like to buy, for a tidy 7 billion rand ($1 billion), are among the most critical of Mr Mbeki's government. In a country that has enshrined press freedom in its constitution, many feel there is a conflict of interest.

In August, in the latest round of press coverage to annoy the government, the *Sunday Times*, Johncom's flagship newspaper, ran a series of articles accusing the controversial health minister, Manto Tshabalala-Msimang, of being a kleptomaniac and a drunk. The articles were based in part on her confidential medical records, which were allegedly stolen from the hospital where she has been treated for various medical ailments. The ruling African National Congress (ANC) accused the paper of a gross breach of privacy and of pursuing a personal vendetta against the minister—who, however, has not sued for libel. (In the past, she had cast doubt on the link between HIV and AIDS, recommending beetroot juice as a cure.)

Similarly embarrassing articles for the government have flowed from other papers in the Johncom group (see chart). The opposition Democratic Alliance accuses the government of trying to silence dissent by buying critical newspapers. According to Reporters Without Borders, an international lobby group measuring press freedom, South Africa ranks 43 out of 169 countries—ahead of the United States. But some worry that this proposed takeover is part of a trend against press freedom, more than a decade after the end of the overt censorship of the apartheid era.

One bill being debated, for instance, is meant to shield children from pornography but could result in serious restrictions on publication of other articles. If adopted, it is likely to be

challenged in the constitutional court. On several occasions, orders by other courts were granted to stop the publication of articles in the weekly *Mail & Guardian*, which regularly sniffs out corruption and other dodgy practices, though a recent appeal-court ruling should make this practice more difficult.

Jane Duncan of the Freedom of Expression Institute (FXI), a local watchdog, claims that the independence of the broadcasting regulator has been gradually eroded since the late 1990s. The government has been accused of turning the South African Broadcasting Corporation (SABC), the public broadcaster that remains the main source of information for most South Africans, into a lapdog. There has been an exodus of senior staff, and much criticism of Snuki Zikalala, an ANC stalwart who heads the news department at the SABC. A commission of inquiry concluded last year that some commentators notably critical of the government had been blacklisted from appearing or speaking on the SABC.

An alliance of groups, including FXI, trade unions and the Media Institute of Southern Africa, recently asked Mr Mbeki to revisit the composition of the SABC's proposed new board, which they say is neither representative (too many businessmen) nor independent enough. Raymond Louw, who heads the Media Freedom Committee at the National Editors' Forum, says that, though the press is quite free, official tolerance of media freedom and freedom of expression is diminishing.

Who reads what?

Selected South African newspapers

Average print circulation per issue, April-June 2007

Johnnic Communications		
Sunday Times	Sunday	504,072
Sowetan	Mon-Fri	143,926
*Times**	Mon-Fri	131,000
Business Day (50%)	Mon-Fri	41,858
Financial Mail (50%)	Friday	33,308
Media24		
Daily Sun	Mon-Fri	488,841
Rapport	Sunday	321,802
City Press	Sunday	195,663
Beeld	Mon-Fri	105,184
Finweek	Thursday	34,143
Independent News & Media PLC		
Star	Mon-Fri	168,977
Sunday Independent	Sunday	45,945
Newtrust Company Botswana Ltd		
Mail & Guardian (87.5%)	Friday	47,496

Sources: *The Economist*; Audit Bureau of Circulations of South Africa

*Q3 2007

The government retorts that although media freedom is sacrosanct the private media have at times abused this freedom and violated professional codes of conduct. Officials also argue that the main threat to media freedom is not the state but the fact that private newspapers are increasingly driven by commercial interests and do not represent a diversity of views. The ANC is mulling over the creation of a media tribunal to address these concerns, though it remains unclear what it would do.

As for the takeover, the government dismisses as “ludicrous and laughable” claims that it or Mr Mbeki himself had anything to do with the Koni bid for Johncom. But doubts persist. For one thing, it has been reported that Koni is seeking funds from the Public Investment Corporation, which manages government employee's pensions and is entirely owned by the government. For another, the Koni bid came little more than a week after the purchase was announced of about 30% of Johncom's stock by a business tycoon, Tokyo Sexwale, who happens to be another ANC stalwart, with a fair chance of succeeding Mr Mbeki as president.

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Kenya

Murder most foul?

Nov 8th 2007 | NAIROBI
From The Economist print edition

Who is to blame for a spate of execution-style killings?

Get article background

SINCE the summer, 454 bodies have been dumped in mortuaries, mainly in or around Nairobi, the capital, most of them shot in the back of the head. They had all been killed by “state security agents”—at least, that was the extraordinary claim made this week in a report by Kenya's official human-rights commission. The police, it added, had shown little interest in investigating the deaths and had obstructed the commission's work.

The report seems to confirm rumours that the interior ministry organised an undercover squad to hunt down and kill members of the Mungiki sect, a Kikuyu gang that has terrorised central Kenya on and off for years, not least by decapitating its victims. Mungiki foot-soldiers have also been used by politicians to rough up opposition supporters, but a killing spree earlier this year was a step too far. In June the government ordered a crackdown. Many Mungiki leaders have since disappeared.

The head of the police, Hussein Ali, denies any wrongdoing. Where, he asks, is the evidence? The report, he says, showed the “level to which the human-rights commission had degenerated”; the dead were killed in car crashes or in gang violence.

Kenyan police, he insists, do not engage in crime. But some think one reason war was declared on the Mungiki was because they were muscling in on police earnings from bus touts and others in poorer bits of Nairobi. A grave allegation in the report is that some of those killed paid hefty bribes to the police to be let out of prison after a round-up of suspected Mungiki, only to vanish later.

There are calls for an independent inquiry. Many feel sorry for the police, who have lost 15 officers to the Mungiki this year alone. But Mr Ali's denials fail to answer the main charges: why the lack of a proper investigation, why the execution-style of the killing, and why so many dead?

Another question is what part, if any, the killings will play in next month's general and presidential elections. A crackdown on the Mungiki, whose origins lie in Kikuyu folklore, may placate some of those who complain that the Kikuyus, Kenya's largest ethnic group, have been hogging economic and political power. But the sheer scale of the killings makes everyone feel queasy.

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Nigeria

An eerie lull in the violent Delta

Nov 8th 2007 | OKRIKA AND PORT HARCOURT
From The Economist print edition

Can peace break out in Nigeria's oil-richest states?

Get article background

IT IS a nice, warm afternoon, just right for a football match in Okrika, an island village a few miles south of the big city of Port Harcourt, capital of Nigeria's oil-rich Rivers state. Local teams gather to compete for one of three large trophies and the pot of money that comes with victory. Politicians and chiefs have been invited. It is your average local tournament—save for the host. This “unity and peace” competition, worth 15m naira ($120,000), replete with tents, music and commentators, is in the gift of Ateke Tom, an alleged militant wanted by the Nigerian government.

A few months ago, Tom, as he is simply known, was said to be over the water in Port Harcourt with his boys when gang warfare there left at least 40 dead and twice as many wounded. His was one of several gangs that roamed the streets with AK-47s in a fight to control the city. The usually ubiquitous hawkers and traders at the roadside vanished. Only after a joint force of soldiers, sailors and airmen stormed the city did the violence subside.

Port Harcourt is quiet again but no one thinks the peace is secure. Soldiers still patrol the town and its nearby creeks. Every rural area has a military monitor. An evening curfew has emptied bars and packs the streets at the end of the working day as people leave the town for the villages. Militants such as Tom go back to their rural areas; others, such as Soboma George, are in hiding. They have put aside their arms for now. But the joint task-force commander, Brigadier Sakin-Yaki Bello, admits that the military solution is no real solution at all.

It is no accident that this has happened in Port Harcourt, the key oil city in Africa's most populous country. Though Nigeria's huge wealth springs out of the soil and the nearby seabed, the city's slums are overflowing, roads are rotten and jammed. Rural people complain of oil pollution and neglect from both government and oil companies. Protest movements, starting in the mid-1990s, were at first peaceful, then became violent. Recently, the Movement for the Emancipation of the Niger Delta (MEND) has become notorious for kidnapping foreign oil men and demanding ransom. Ethnic groups have been organised and sometimes arm their youth wings.

Though violence has simmered for two decades in the Delta region (which embraces several states), Rivers state, to the east, is among the worst. After Nigeria's transition from military rule to democracy in 1999, politicians paid and armed groups of youths to win elections there by intimidation and violence. Many armed groups had roots in university “cults” formed during the military era and linked by

membership to the new democratic leaders.

During elections in 2003 and 2007, violence erupted again. Celestine Omehia was sworn in as Rivers's governor in May; in August, rival gangs fought for patronage on Port Harcourt's streets. Accusations of favouring one cult over another were hurled at the governor, though he denied paying any thugs at all. Chief Edwin K. Clarke, a leader of the Ijaw people, says he has proof that the state paid militants as much as 100m naira a month.

Port Harcourt's gangs are linked to the struggle in the wider Niger Delta, where rebels demanding a better deal—in particular, that money from the oil revenue should be spent on local services—have also been fighting the government. Membership of gangs, cults and militant groups overlaps with conventional politics. Gang members move in the same circles as politicians and ethnic leaders. “The militancy has changed from its roots,” says Anyakwee Nsirimovu of the Institute for Human Rights and Humanitarian Law in Port Harcourt. “Where it was once wearing jackets, now it's wearing suits and ties.”

The gangs dig in

Recruitment into the gangs continues in earnest; the incentives are strong. A lowly member earns more than twice the average blue-collar wage. The unskilled and even the university-educated consider gangs the best—perhaps the only—way to survive. Schoolboys join for a month at a time in the holidays to earn enough to pay their school fees. Many think gang membership a democratic right: the only way to get a slice of the oil state's cash.

The government's joint force says it is flushing out militants and seizing their arms. Since August, the army has made several raids on militant camps. The army says it may trap politicians, if a good case is found against them. But the gangs do not look like going away for good.

Negotiations are also going on in the federal capital, Abuja, in preparation for a summit on the Niger Delta that has been planned for later this year. In public, Nigeria's vice-president, Goodluck Jonathan, an Ijaw from the Niger Delta, has invited tribal leaders to attend. Militant leaders may also quietly be invited to the negotiating table, including those from MEND. President Umaru Yar'Adua may set up a judicial committee to investigate gang mayhem in Port Harcourt.

It is unclear whether the militants are in a mood to negotiate. Across the Niger Delta as a whole, their rank and file may suspect that their negotiators may be bought out. The militants also say they will increase attacks unless the authorities release Henry Okah, one of MEND's top men, who was arrested two months ago in Angola.

And in Rivers state, patronage may win the day again. Nigeria's Supreme Court recently ousted Mr Omehia from his governorship, after it upheld an electoral challenge from Rotimi Amaechi, a former speaker of the state assembly. The streets of Port Harcourt filled with celebrators, protesters and soldiers ready to put down violence. With a new governor running the show and local elections due this month, violence could well erupt again.

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Iraqi Kurdistan

Iraq's Kurdish leader in a bind

Nov 8th 2007 | ERBIL
From The Economist print edition

What can Masoud Barzani, the Iraqi Kurds' leader, actually do?

Get article background

IRAQ'S Kurdish leaders are desperate to forestall—or at least to minimise—Turkey's threatened assault against the guerrillas of the Kurdistan Workers' Party (PKK) who have been attacking the Turkish army in Turkey while using the rugged mountains of northern Iraq as a haven. In the past week, the regional government of Iraqi Kurdistan, under the presidency of Masoud Barzani, has used its good offices to facilitate the release of eight Turkish soldiers whom the PKK had recently captured in Turkey. But the Turks say that Mr Barzani and his American allies must do more if Turkey is to put off a full-scale attack.

Exactly what? Mr Barzani says he is ready to help solve the PKK problem—peacefully. He insists that he is a friend of Turkey and the Turks but will not co-operate "under threats and blackmail". He has repeated calls for the PKK to stick to its unilateral ceasefire (proclaimed a year ago) and not to use its bases in the remote mountains of Iraqi Kurdistan to launch attacks across the border into Turkey (see map). Mr Barzani's government has closed the offices of the Kurdistan Democratic Solution Party, which praises the PKK, in Iraqi Kurdistan's two biggest towns, Erbil, its capital, and Sulaymaniyah. Mr Barzani also says that checkpoints between the main part of his region and the PKK zone have been revived, to squeeze the guerrillas by staunching the flow of supplies.

There is no love lost between Mr Barzani and the PKK. He is privately furious with its leaders for stoking the crisis. But he refuses to send his own *peshmerga* fighters to drive the PKK out of its strongholds; they tried and failed to do that several times in the 1990s, sometimes in co-operation with the Turks, and got a bloody nose. The days of Kurd fighting Kurd are over, says Mr Barzani, mindful of the civil war among Iraqi Kurds in the 1990s. Instead, he suggests sending a multinational force into the region to corral the PKK. It is unclear which countries would contribute to such a force.

Mr Barzani anyway rejects the charge that the attacks on Turkish troops have been launched from Iraq, claiming that Recep Tayyip Erdogan, Turkey's prime minister, just before Turkey's general election in the summer, said himself that there were 5,000-odd PKK fighters inside Turkey compared with only 500 or so over the border in northern Iraq. Mr Barzani also points out that the heaviest fighting between the PKK and Turkish troops has been in Tunceli province, more than 100 miles (161km) west of Turkey's border with Iraq.

EPA

Eyeing the Turks

Mr Barzani's nephew Nechirvan, the region's prime minister, wrote in the *Washington Post* this week: "We have condemned and will continue to condemn the PKK for its unwarranted attacks in Turkey. We insist that its members lay down their arms immediately. We do not allow them to operate freely, contrary to what some have suggested." Both Barzanis, president and prime minister, said the Turks and the PKK must negotiate rather than fight. The uncle noted that Turkey had tried for 23 years to crush the PKK militarily—in vain.

In any event, the numbers of PKK guerrillas, in or out of Turkey, are disputed. In a recent interview, Osman Ocalan, brother of the PKK's

leader Abdullah Ocalan, who is in jail on the island of Imrali in the Sea of Marmara, said there were 2,750 PKK guerrillas in Turkey, 2,500 in Iraq's borderlands and 1,500 in Iran. The last-mentioned lot belong to the Party of Free Life of Kurdistan, better known as PJAK, generally reckoned to be the PKK's Iranian Kurdish branch. Many PKK guerrillas are thought to have moved across the border into Iran, which the Turks are unlikely to encroach upon. Some independent watchers put the PKK numbers in Iraq at fewer than 500.

The PKK says it wants to negotiate and that its violence is in response to Turkish attacks—a claim that enrages the Turks; 35,000-plus people in Turkey (most of them Kurds) have been killed since the PKK began fighting in the 1980s. The PKK also insists that, unlike its cousins in Iraq and Iran, it no longer seeks autonomy or federalism, but just wants Kurdish cultural and political rights enshrined in Turkey's constitution. It also wants Mr Ocalan freed and better conditions while he is in prison.

Mr Barzani's mollifying gestures have cut little ice in Turkey, where he is widely cast as a villain in the thick of a plot to dismember Turkey by egging on the PKK. Nationalist Turkish commentators call him “insolent” and “treacherous”. Turkish weapons should be “turned on Barzani,” says the editor of *Hurriyet*, one of Turkey's biggest daily newspapers. Mr Erdogan has joined the fray, accusing Mr Barzani of aiding and abetting the PKK.

Please don't throttle us

The Kurdish Iraqis are already suffering from de facto economic sanctions imposed by Turkey, which has been their economic lifeline. The Turks are threatening to close the one border crossing for heavy lorries, through which vital supplies of food and equipment reach Iraqi Kurdistan. Flights between Istanbul and Erbil, the Kurds' capital, have been suspended. There has been talk of shutting off electricity from Turkey, which would hurt the flourishing city of Dohuk. Several Turkish companies that have been doing good business in Iraqi Kurdistan (such as building Erbil's airport) have packed up and—for the time being—gone. The Barzanis sorely need them back. But how?

This week George Bush welcomed Mr Erdogan to the White House and assured him that the United States deems the PKK a terrorist group and is as keen as Turkey to squelch it. The administration apparently endorsed limited Turkish military action against the guerrillas and has offered to give as much intelligence as it can so that the Turks can identify PKK targets. But it has begged the Turks to refrain from a bigger-scale attack that could drag the Iraqi Kurds into the fray—and destabilise the only bit of Iraq that has been peaceful and increasingly prosperous. So far, Mr Erdogan and his generals have held back. But no one is sure they will do so for long.

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The Palestinian territories

Has Hamas split?

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From The Economist print edition

Reports of discord within Hamas may be exaggerated

Get article background

JUST how divided is Hamas? Since the Islamist party took over the Gaza Strip in June, after months of violent clashes with the rival, secular-minded Fatah faction, Israel and the rest of the world have imposed an economic siege on the strip. Many perceive signs that Hamas is splitting under the pressure. That, in turn, has raised the prospect of Hamas becoming a busted flush—or of a moderate wing emerging that could do business with Fatah, rebuild a broader Palestinian front and perhaps even agree to the conditions that would enable it to negotiate with Israel.

EPA

Meshal still reckons he's in charge

Khaled Meshal, the head of Hamas's politburo, lives in exile in Damascus and reports to a council that takes decisions by consensus. But the physical separation between Hamas members in Damascus, the West Bank, Gaza and Israeli jails have created sub-leaderships, each with its own ideological nuances. Ismail Haniyeh, who was the Palestinian prime minister from Hamas's election victory in 2006 until the president, Fatah's Mahmoud Abbas, dismissed him after the June showdown, is Hamas's political leader in Gaza. But already in June he seemed to have little control over the military wing which led the push against Fatah. That has led to much speculation over whether the militias' real commander is Mr Meshal or two hardline former members of Mr Haniyeh's cabinet, Mahmoud Zahar and Said Siam.

Recently Hamas-watchers have seized on more hints of division. Last week Nizar Rayan, another Gaza hardliner, bragged that by next autumn Hamas would be praying in the *muqata*, Mr Abbas's compound in the West Bank town of Ramallah. Four West Bank Hamas men, including Mr Haniyeh's erstwhile deputy, Nasser al-Shaer, responded with a conciliatory press conference, after which Mr Abbas invited them to the *muqata* to pray with him.

But while the four proudly touted a thaw in relations with Fatah, some Hamas spokesmen in Gaza played it down. Two days later, when Mr Haniyeh gave a speech reiterating his frequent calls for dialogue with Fatah and denying any intention to take the West Bank by force, Mr Zahar was conspicuously absent. Mr Meshal's deputy in Damascus, Musa abu Marzuk, then appeared to paper over the cracks by repeating Mr Haniyeh's message. Hamas-watchers have seized on other signs of friction, such as a letter published by

Ghazi Hamad, a Hamas journalist who became its government spokesman, bitterly criticising Hamas's past mistakes.

The trouble with this Kremlinological analysis is that few observers are neutral. Most of those who see a split are Americans, Israelis and pro-Fatah Palestinians with an interest in portraying Hamas as divided and becoming more extreme. An expert at Conflicts Forum, whose co-director, Alastair Crooke, a British former diplomat, has dealt extensively with Hamas, says that “so far as I can tell, the guy who makes the decisions is still Meshal and the so-called radicals are not a majority force.” But Conflicts Forum also has an agenda: to promote Western dialogue with Islamists and boost the moderates among them.

Some say that, despite previously rejecting talks with Hamas, Mr Abbas now needs to reach out to it to mitigate the isolation he will suffer if an Israeli-Palestinian summit due at the end of this month in Annapolis produces—as looks increasingly likely—no tangible advances towards a Palestinian state. But others think he is using the contact with West Bank leaders to encourage a split in Hamas.

In any event, if Mr Abbas's goal is reconciliation, it is not close. At their meeting, Mr Abbas told the West Bank leaders that Hamas must return all the Fatah bases and weapons it captured in June before dialogue can begin. Hamas, by contrast, says dialogue must be unconditional. And if Mr Abbas wants to provoke a split, he seems unlikely to get more than a splinter. Mr Shaer and his West Bank colleagues are known as extreme moderates within Hamas; so is Mr Hamad, the former spokesman. Qaddoura Fares, a Fatah leader in the West Bank, says he has had calls from three well-known Hamas moderates in Gaza trying to re-establish dialogue, and told them to show their goodwill and influence by having them stop Hamas-run media outlets from vilifying Fatah. “They haven't called me back,” he says.

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Italy and immigration

Disharmony and tension

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From The Economist print edition

EPA

The recent hysteria over Romanian immigrants says much about Italy and the fragile state of its politics

ITALIAN political leaders are not generally held in high esteem outside (or indeed inside) their home country. Their handling of the country's first big race-relations crisis has shown why. Among the adjectives that spring to mind are opportunistic, histrionic, irresponsible and, perhaps at best, insensitive.

The trouble began on October 30th, when Giovanna Reggiani, a 47-year-old Italian naval officer's wife, was returning home along a deserted lane in northern Rome. She was brutally attacked. Early reports suggested that she had been tortured, raped, robbed and ferociously beaten—though, in fact, she was neither tortured nor raped. But it may be that her assailant set about her savagely after she tried to defend herself from sexual assault.

This was a horrifying crime, from which Ms Reggiani died two days later. The man accused of her killing is Nicolae Mailat, a Romanian Roma (gypsy) who lived in one of a string of shacks in a nearby wood. He denies murdering Ms Reggiani, but admits snatching her bag. Fellow shack-dwellers say that he is mentally disturbed.

None of this carried any weight in the outcry that followed. Mr Mailat is one of hundreds of thousands of Romanians, many of them gypsies, who have flocked to Italy in recent years and now make up its biggest ethnic minority. They have unquestionably brought problems, particularly to Rome, where a disproportionate number live in dreadful conditions under bridges, in copses or in disused buildings. They have made some parts of the city feel distinctly unsafe.

But the reason so many have come is that Italian politicians have encouraged them. The former centre-right government of Silvio Berlusconi waived visa restrictions on Romania five years before it joined the European Union in January. The current centre-left government of Romano Prodi chose not to restrict the entry of workers from Romania after it had become a full member. Romanians were initially popular. They speak a Romance language. Most integrate easily.

Despite Italy's open-arms policy, no steps were taken to provide even temporary shelter for the new arrivals. Part of the blame must fall on Rome's centre-left mayor, Walter Veltroni. Yet it was he who was chiefly responsible for pushing the government into a panic after Ms Reggiani's murder.

Mr Veltroni is more than just mayor of Italy's biggest city. Last month, he was elected head of the new Democratic Party, which combines the two biggest parties on the centre-left. As such, he instantly became

heir-apparent to Mr Prodi, and the centre-left's candidate for the next general election. He thereby makes himself a continuous source of discomfort to Mr Prodi, as he seeks to keep himself in the news. He also offers an appealing alternative to an unpopular and fragile government which smaller coalition parties are repeatedly threatening to bring down.

After Mr Veltroni declared that “neither the police nor the local authorities can cope with the emergency”, the cabinet produced a decree that gave prefects, local representatives of the interior ministry, the power to expel citizens of other EU countries if they had the backing of a judge. A 2004 EU directive legitimised such expulsions in cases where there was a threat to public health or security.

In Brussels, the justice commissioner, Franco Frattini, and his officials seem to have accepted the Italian move (see article). But it is at best debatable whether the expulsions reflect faithfully a directive that, according to the EU's own summary, was intended for a “ serious and present threat which affects the fundamental interests of the state”.

The most shocking aspect of the decree is that it is aimed so openly at Romanians. The preamble claims that “the proportion of crime committed by foreigners has increased, and those who commit most crime are the Romanians.” This is true only in absolute terms, because Romanians are the most numerous immigrants. As an analysis in *La Stampa* has shown, the proportion of Romanians reported to, or arrested by, the police in 2006 was lower than in most other foreign groups.

Within 24 hours of the cabinet meeting, 20 people were expelled. A band of thugs beat up and stabbed three Romanians in a Rome suburb. The first of several immigrant encampments were flattened with bulldozers. Since then, the Roma have been the target of vitriolic abuse. Gianfranco Fini, the supposedly reformed leader of the former neo-fascists, accused them of prostituting their womenfolk, approving the kidnapping of children and believing that theft was morally justified.

Mr Veltroni's new position has created two possible openings for Mr Fini—as mayor of Rome (the opposition wants Mr Veltroni to stand down), or as leader of the opposition. The emergence of the 52-year-old Mr Veltroni on the centre-left makes it less likely that the centre-right will stick with the 71-year-old Mr Berlusconi. Mr Fini appears to think that race-hate oratory will enhance his prospects.

He may be right. A poll in *Corriere della Sera* suggests only 30% of Italians think it possible to integrate the Roma. That is also the view of many in Romania, where discrimination is common. On November 7th Romania's prime minister, Calin Popescu Tariceanu, flew to Rome to meet Mr Prodi. Much of their discussion was about plugging holes. After all, most of those whose encampments have been wrecked will build shacks elsewhere. Although some were put on flights to Bucharest, Italy does not have the resources to remove substantial numbers. Future expulsions will probably consist of no more than an order to leave. And those who go can easily return: most Romanians enter Italy in buses across uncontrolled frontiers.

The two prime ministers agreed to set up a joint police force and to send more Romanian police liaison officers to Italy. They also decided to write to Brussels asking for extra structural funds for what they called “the most problematic phenomena, like the migration flows involving the Roma ethnic group.” When in a fix, stick out your hand and beg for cash. It is what so many accuse gypsies of doing all the time.

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Italy and the Mafia

Catching the boss

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Another coup against Sicily's Cosa Nostra

ITALIANS were given a salutary reminder on November 5th that not all crime in their country is committed by foreigners. At a house near Palermo, police seized Salvatore Lo Piccolo, the most senior Sicilian Mafia boss still at large. He had been on the run for 24 years. His son Alessandro and two other mobsters were arrested with him. All four men were on Italy's "30 most wanted" list.

It was the biggest victory in the fight against organised crime since April 2006 when Bernardo Provenzano, the Mafia's last *capo di tutti i capi* ("boss of all the bosses"), was found hiding in a semi-derelict farm building. Notes that he had written showed that he was running Cosa Nostra with the help of two other men. One was arrested two months later. The second was Mr Lo Piccolo.

Reuters

Little Mr Big

Investigators said that, unlike Mr Provenzano, Mr Lo Piccolo's writ did not seem to run to the whole island. But the chief anti-Mafia prosecutor, Piero Grasso, still declared that the Mafia had been "decapitated". That may not be undiluted good news. Any power vacuum in the organisation could lead to a ferocious fight that spreads a pall of terror over western Sicily. This time the situation may be aggravated by the return of several powerful *mafiosi* who fled to America after the most recent such war in the 1980s.

Nevertheless, senior officials are voicing an optimism that has rarely been heard before. The chief of the Italian police, Antonio Manganelli, conceded that Mr Lo Piccolo would be replaced, but he insisted that no successor of similar calibre was available. The interior minister, Giuliano Amato, expressed the hope that all Sicilians would now see that the state was stronger than Cosa Nostra and turn to it for protection instead.

Recent months have seen a growing revolt among Sicilian businessmen against the exactions to which they are subject. The Mafia is not the force it once was. After being edged out of the profitable international cocaine business by the 'Ndrangheta, its Calabrian rival, it fell back in the 1990s on racketeering. The man who did more than anyone to enforce increased demands for protection money was Mr Lo Piccolo. Sicily—and Italy—are safer places now.

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France's suburbs

Two years on

Nov 8th 2007 | CLICHY-SOUS-BOIS
From The Economist print edition

The French banlieues may be quiet, but the atmosphere remains tense

Get article background

A FROSTY autumn morning, and the washing is already strung out on balconies of the tower blocks in Clichy-sous-Bois, a grim Parisian *banlieue*. On the pavement, down the road from the Afro Plus hairdresser, steamrollers press down fresh tarmac, and lamp-posts are being freshly painted. Two years after riots broke out following the accidental deaths of two local Muslim youths, triggering three weeks of mayhem all round the country, Clichy-sous-Bois is trying to make a fresh start.

AP

A November night in 2005

In 2005, as riots spread across heavily Muslim *banlieues*, some 10,000 cars were burned, 300 buildings and schools torched and 4,700 people arrested. To mark the second anniversary of the deaths of the two youths, who were electrocuted after taking refuge in a sub-station while apparently fleeing the police, Claude Dilain, the Socialist mayor, held a memorial ceremony in Clichy. It passed off calmly.

There are other signs of improvement. Before this year's presidential election, voter registration in this *banlieue* jumped by almost 20%. Turnout was a massive 82%. An extra €126m ($182m) has been squeezed out of the government to demolish and rebuild social housing, on top of a big post-riot cash injection by the previous government. Clichy's lycée, catering to 1,100 pupils, has signed an agreement with Sciences-Po, a top Paris university, to help its pupils bypass the stiff entrance exam; three were enrolled this term.

Yet like many of France's *banlieues*, Clichy remains troubled. Unemployment in France has dropped from 9.8% in 2005 to 8% today. But in Clichy it is around 20% and, on the worst housing estates, nearer 50%. Apartments are crowded with extended families, of all faiths and colours. Clichy is just 15km (ten miles) north-east of the boulevards of central Paris. Even so, with no rail link, it takes 1½ hours to get to the city centre by public transport. A proposed tramway has still not been agreed by the greater Paris region. There is no police station in Clichy, despite its high crime rate; one is promised, but not until 2010.

Ask local residents what has changed since 2005, and many reply: nothing. The question of expectations is complex. Nicolas Sarkozy, who as interior minister in 2005 once called trouble-makers “scum”, was demonised by the left during the election campaign. He barely ventured into the *banlieues*, and Ségolène Royal, his Socialist rival, went so far as to predict fresh riots if he won. Yet they never came. “If there was going to be an anti-Sarkozy explosion, it would have happened the night of his election,” says Samir Mihi,

who co-founded the association AC Lefeu (pronounced *assez le feu*, or enough burning) during the riots. “I guess people are resigned to his presidency.”

As president, Mr Sarkozy has wrong-footed critics by appointing to his centre-right government not only members of the left, but also people from ethnic minorities, including Muslims. He put Fadela Amara, the leftist founder of a minority women's-rights group, in charge of inner cities. He sent Rama Yade, who is of Senegalese origin, to deal with human rights at the foreign office. And he gave Rachida Dati, whose Algerian mother was a cleaning lady, the justice ministry. “For once they didn't put the Arab in charge of youth and sports,” says Mr Mihi wryly.

Adding to this sense of promise is Mr Sarkozy's pledge to launch a new “Marshall plan” for the *banlieues*. In recent weeks, Ms Amara has been travelling around the country, holding—in her gritty style—local consultations “in apartments and staircases”, and hosting online blog discussions on jobs, transport and education. Her *plan banlieue* is due to be unveiled early next year.

As Clichy's Mr Dilain says, however, “there is a risk of disappointment, because expectations are now high.” A damning official report this week showed that several previous *banlieue* plans had been ineffectual. Ms Amara's plan does not even touch some of the thorniest issues, such as the causes of high unemployment. Plans to loosen restrictive labour laws are under discussion, but they will take time to yield results—and they are, in any case, not part of her brief. Nor does she deal with relations between Muslim youths and the police, a constant source of tension on the streets of Clichy and other *banlieues*. The role of mosques and the political representation of Islam are not under discussion.

One test will come at local elections to 36,500 councils next March. Despite a minority population of some 12.6%, according to the Institut Montaigne, a think-tank, there are almost no minority members of parliament for mainland France, and only a handful of mayors, even in the *banlieues*. Clichy's Mr Dilain, like all mayors in the department of Seine-Saint-Denis, home to the roughest Paris *banlieues*, is white. Even the head of France's anti-discrimination body, Louis Schweitzer, former chief of Renault, is a white male.

The pressure to change this is more intense because this year's parliamentary election was a big disappointment for minority candidates. Some of those who stood, such as Malek Boutih, a prominent Socialist and former head of SOS Racisme, or Jeanette Bougrab, for Mr Sarkozy's UMP, were given unwinnable constituencies. Only one ethnic-minority Socialist candidate, George Pau-Langevin, got in. As local party lists are compiled, there is pressure on both left and right to be more diverse. This week it was announced that Ms Dati would herself head the UMP list for Paris's seventh arrondissement.

Back in Clichy-sous-Bois, despite the attempts at a new civic spirit and the freshly scrubbed streets, a sense of frustration remains palpable. The longer it takes to bring about clear change, the greater the risk of such feelings boiling over again. “People who live here are still stigmatised,” comments one local, ordering a Bollywood chicken kebab at a fast-foot joint. “There is disappointment,” concedes Mr Dilain. “And the atmosphere remains tense.”

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Belgium's governmentlessness

The BHV question

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The jokes over Belgium's failure to form a government begin to turn sour

NOT with a whimper, but with a bang. After 150 days of squabbling over the formation of a new government, Belgium's political elite brought their fragile system of consensus rule crashing down on November 7th, with a direct clash between the two feuding linguistic groups. The official cause sounds technical: a bid by politicians from the Flemish majority to abolish the bilingual rights of 150,000 French-speakers who live in (otherwise Dutch-only) suburbs near Brussels. But by putting the plan to a vote in a parliamentary committee, Flemish leaders have broken the decades-old "Belgian pact", under which the two language groups avoid holding a straight sectarian vote.

The vote itself was pure theatre. French-speaking members stormed out as soon as the motion was put, and it is now buried under a blizzard of procedural points. At issue is the splitting up of an electoral district known as Brussels-Halle-Vilvoorde (BHV) that straddles the boundaries of bilingual Brussels and monolingual Flanders. The effect would be to strip French-speakers in the "Halle-Vilvoorde" bit of the right to vote for French-speaking politicians from Brussels, and also of the right to have court cases heard by French-speaking judges. To the Flemish, it is anomalous for French-speakers to live in pristine Dutch-speaking suburbs, but still enjoy the rights they would have if they lived in Brussels. To their opponents, the Flemish are bent on a polite form of ethnic cleansing, creating a linguistically "pure" Flanders from which French is banished.

At least initially, the French-speakers did not walk away from the coalition talks altogether. Beneath their noisy outrage over the vote, French-speaking leaders muttered that coalition talks should perhaps continue on other matters. But real damage has been done. Until this week, the establishment could pretend that five months of talks over forming a new government were merely an extreme form of business as usual: coalitions across the language divide always take several weeks to form. Seasoned politicians have been rolling their eyes and tut-tutting as articles appeared in the foreign press, asking if the country was in a crisis that might lead to its break-up. It was only this week that the post-war record for squabbling (148 days, set in 1988) was beaten by Yves Leterme, the Flemish Christian Democrat who is leading the coalition talks.

The sages murmured that the crisis has dragged on so long only because younger politicians such as Mr Leterme have little experience of coalition-building or indeed of federal government, and so know few of their counterparts from the other linguistic camp. Others blamed the European single currency, saying that the stability of the euro has made it safe for politicians to squabble forever: in the days when Belgian had its own franc, the threat of currency turmoil concentrated minds admirably. Yet this soothing talk sounds less convincing now that an ugly truth has been exposed: that the Flemish majority (who make up 60% of the population) are bent on re-ordering Belgium so that they have less to do with their French-speaking compatriots, whether they like it or not.

This could have been seen coming. Mr Leterme, formerly premier of Flanders, won the federal election on June 10th with a campaign based on flirting with separatism. In one notorious interview last year, he called Belgium an "accident of history" with no intrinsic value. Despite (or because of) this, he is still the man most Flemings want to see as prime minister (his approval rating in Flanders remains around 70%). He also has a mandate to stick it to French-speakers. A poll on November 5th in *Het Laatste Nieuws*, a Flemish newspaper, found that nine out of ten Dutch-speakers want to press on with stripping bilingual rights from French-speakers in BHV. The poll found only a narrow majority in favour of keeping Belgium together: as many as 63% thought an eventual break-up was inevitable.

To outsiders, this week's row could hardly have been more obscure. It is not much easier for Belgians, who have spent days studying supplements and wall charts given away with newspapers about the BHV question. It is perhaps enough to know only this: Belgium's feuding French- and Dutch-speaking politicians, often compared to partners in a grumpy (yet oddly long-lasting) marriage, have broken the taboo of direct confrontation. That need not spell the end of the union, but it is hardly a good omen for the future.

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Georgia's protests

People power

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The president tries to face down protests from the opposition

Get article background

IT WAS exactly four years ago that Mikheil Saakashvili, then a youthful firebrand leader of the opposition to President Eduard Shevardnadze, brought his supporters out into the streets of Tbilisi. The protesters were complaining that Mr Shevardnadze had staged and won a rigged parliamentary election. The demonstrations were peaceful but, because they went on day after day, also intimidating. Within days, Georgia's “rose revolution” had driven Mr Shevardnadze out of power and installed Mr Saakashvili in his place.

Four years on it is Mr Saakashvili who has been confronted by the biggest protests since the rose revolution. The most recent ones, in central Tbilisi and in front of the parliament building, have attracted crowds at least 50,000 strong. The protesters object to Mr Saakashvili's forceful, hands-on style, complain that the benefits of the boom (annual GDP growth is close to 10%) have been too narrowly shared, and demand fresh elections.

AP

While we were marching through Georgia

Yet unlike Mr Shevardnadze four years ago, Mr Saakashvili seems determined to hang on. He claims the demonstrations are part of a Kremlin-backed putsch against him. “High-ranking officials in Russian special services are behind this,” he said, adding that several Russian diplomats would be expelled. Georgia's ambassador to Moscow has been recalled.

Certainly Russia has systematically provoked Georgia, with trade and energy sanctions, harassment of Georgian migrants in Russia, and—most recently—mysterious air raids. But Mr Saakashvili's response will do little to help his country's reputation as a shop window for the West in the former Soviet Union.

On November 7th police forcefully dispersed the protesters, using tear-gas and water cannon. Scores of people were reported injured. Among those beaten was Georgia's human-rights ombudsman, Sozar Subari. The government then declared a 15-day state of emergency. Riot police stormed the main opposition television station, Imedi, and took it off the air.

Countries that normally support Georgia against Russian bullying are aghast. Many have been worried privately for some time about cronyism in Mr Saakashvili's inner circle. Last month the secretary-general of NATO, Jaap de Hoop Scheffer, underlined the need for greater political transparency and a stricter rule of law if Georgia wants to progress towards membership. Outsiders worry that state influence on the media is too strong. Many think that the government mishandled a spectacular bust-up last month with the firebrand former defence minister, Irakli Okruashvili, now in exile.

Yet the opposition's stance can sound hysterical and sometimes outlandish (hanging the president in effigy and demanding the restoration of the monarchy after a 200-year interregnum). Given the shambles that Mr Saakashvili took over in 2003, the obstacles he has faced and the progress he has made, criticisms of him may seem harsh. The opposition's motives are open to question too. Badri Patarkatsishvili, a tycoon who fled from Russia, openly bankrolls some of the protesters, no doubt for admirable reasons. That raises questions about the influence of big money in poor countries' politics. An adviser to Mr Saakashvili says those backing the opposition want Georgia to be a weak state that big business can manipulate.

Western countries will be urging Mr Saakashvili to return political life to normal as soon as possible. If he

cannot produce proof of Russian involvement, many will feel that he has cried wolf, using his country's geopolitical significance for narrow domestic advantage. Ketevan Tsikhelashvili, a Tbilisi-based analyst, comments that Mr Saakashvili and his government have survived, but adds that “in the longer term I cannot say his perspectives look very good.” At the very least this week's events have shown how disillusioned many Georgians now are with Mr Saakashvili's commitment to the rose revolution's ideals: freedom, legality and international respectability.

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Russia's past

The rewriting of history

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The Kremlin uses its version of the past to forge a new ideology for the present

Get article background

“RUSSIA'S past was admirable, its present is more than magnificent and as for its future—it is beyond anything that the boldest mind can imagine.” Thus Count Alexander Benckendorff in the 1830s, on how Russia's history should be viewed and written. This advice from the head of the country's first secret police is now being heeded in the Kremlin, where a new Russian history is being forged.

The decade after the collapse of communism was notable for the absence of any official ideology. Weary of grand designs, the Russian elite preferred pragmatism and enrichment. Asked about his national dream in 2004, President Vladimir Putin said that it was to make Russia competitive. But Russia's new oil-driven strength and its aspirations to be a world player have once more created a demand for something more victorious and uplifting. And as Mr Putin looks for ways to stay in power after his second presidential term expires next March, his ideological comrades are placing him in a gallery of Russia's great leaders, a quasi-tsar.

“The attitude towards the past is the central element of any ideology,” Yury Afanasyev, a Russian liberal historian, has written in *Novaya Gazeta*. Indeed, in Russia arguments about history often stir greater passions than do debates about the present or future. What kind of country Russia becomes will depend in large part on what kind of history it chooses. And that is why the Kremlin has decided that it cannot afford to leave history teaching to the historians.

Earlier this year it organised a conference for history teachers at which Mr Putin plugged a new history manual to help sort out what he called “the muddle” in teachers' heads. “Russian history did contain some problematic pages,” Mr Putin told the teachers. “But so did other states' histories. We have fewer of them than other countries. And they were less terrible than in some other countries.” His message was that “we can't allow anyone to impose a sense of guilt on us.”

This is the thrust of the manual, entitled “A Modern History of Russia: 1945-2006: A Manual for History Teachers”. Were it not for the Kremlin's backing, it would probably be gathering dust on bookshelves. But Mr Putin's endorsement has made it one of the most discussed books of the year. New textbooks based on it will come into circulation next year. Russian schools are still free to choose which textbook to teach. But the version of history now proposed by the Kremlin suggests that freedom may not last.

The manual's choice of period is suggestive: from Stalin's victory in the “great patriotic war” to the victory of Mr Putin's regime. It celebrates all contributors to Russia's greatness, and denounces those responsible for the loss of empire, regardless of their politics. The collapse of the Soviet Union in 1991 is not seen as a watershed from which a new history begins, but as an unfortunate and tragic mistake that hindered Russia's progress. “The Soviet Union was not a democracy, but it was an example for millions of people around the world of the best and fairest society.”

The manual does not deny Stalin's repressions; nor is it silent about the suppression of protest movements in Hungary and Czechoslovakia. It does something more dangerous, justifying Stalin's dictatorship as a necessary evil in response to a cold war started by America against the Soviet Union. “The domestic politics of the Soviet Union after the war fulfilled the tasks of mobilisation which the government set. In the circumstances of the cold war...democratisation was not an option for Stalin's government.” The concentration of power in Stalin's hands suited the country; indeed, the conditions of the time “demanded” it.

As Marietta Chudakova, an historian of Russian culture, puts it, for the manual's author totalitarianism “is a warm bath. He splashes in it and enjoys it. The book tries to convince the reader that there was no other way, and most importantly that there was no need for one. Everything was motivated and clear in

that social structure.” The book backs its assessment of Stalin by citing recent opinion polls that give him an approval rating of 47%.

It is less kind to Mikhail Gorbachev. It was his policies, not the Soviet system, that “led to the slowest economic growth in the 20th century.” He is blamed for giving up central and eastern Europe. “Thus the Soviet Union lost its security belt, which a few years later would become a zone of foreign influence, with NATO bases an hour away from St Petersburg.”

Rabid anti-Westernism is the leitmotiv of the new ideology. In return for Russia ending the cold war (“we did not lose it”, the manual insists), America pursued an anti-Russian policy and fomented colour revolutions in Ukraine and Georgia, turning them into springboards for possible future attacks. “We are talking about the failure of the course started by Peter the Great and pathetically continued by pro-Western democrats after 1988. We are talking about a new isolation of Russia.”

How should Russia respond? The manual's answer is a new mobilisation of resources and a consolidation of power in the hands of a strong leader (no prizes for guessing who). “If the national economy is dependent on foreign capital, on imports or the terms of the world market, such a country cannot defend its own interests,” it argues. And it justifies Mr Putin's attacks on the oligarchs and the imprisonment of Mikhail Khodorkovsky. “Don't put yourself above the state.”

The manual's final chapter, on “Sovereign Democracy”, reflects the views of one of the Kremlin's chief ideologues, Vladislav Surkov, deputy head of the presidential administration, who invented the phrase. Mr Surkov argues that Russia needs a political system to suit its national character and that it should disregard international norms of behaviour as “foreign pressure”. In a lecture to the Academy of Sciences, he suggested that such a system was predetermined by the national character and an instinctive longing for a strong hand. Centralisation, personification and idealisation of power drive Russia's political culture. A strong and wise leader is more important than institutions—in fact, he is in Russians' eyes the most important institution.

The problem with such an ideological construct, says Andrei Zorin, a professor of Russian culture at Britain's Oxford University, is that its sole purpose is to preserve the status quo and keep Mr Putin in power. “But a conservative ideology demands respect for institutions, while an ideology of a charismatic leader requires a grand vision. They have neither.”

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Charlemagne

Post-enlargement stress

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Support for European Union expansion is under new threat

Illustration by Peter Schrank

Get article background

EVEN by the standards of Brussels, where rhetoric and reality lead separate lives, this week has been jarring. The highlight, on November 6th, was the unveiling by the European Commission of its annual reports on the countries next in line for European Union membership. Over the years, the commission has tried to make the accession process as technocratic as possible, in the hope that procedural momentum can carry it over political potholes. As usual, this year's reports had a deadpan tone, mixing nicely understated criticism (in Croatia, “the concept of conflict of interest is little understood”) with slightly alarming praise (complaints about torture in Turkey are down, Albania has a handy new law aimed at “instigators of blood feuds”).

An accompanying strategy paper was more stirring, reminding national governments why it is important to keep the door open. EU expansion has made Europe more democratic and stable, reunited a once-divided continent and injected competitiveness into a block only patchily prepared for globalisation. But then came the jarring moment, as breaking news intruded.

Even as enlargement bosses were making the case for offering EU citizenship to millions of Turks, as well as Croats and other Balkan inhabitants in the “medium to long term”, other officials were dealing with events in Italy, where the government has passed a decree to permit the expulsion of EU immigrants deemed a threat to public order. Commission officials confirmed that an EU citizen's freedom to travel can be trumped in this way, as long as expulsions do not target whole ethnic groups or nationalities. Even that proviso looked threadbare when grim-faced Italian police, backed by bulldozers, swept through shanty towns full of Romanians. Giuliano Amato, Italy's interior minister, said that the EU's rules on free movement were inadequate in the face of the arrival of 500,000 Romanians.

Enlargement already conjures up scary images for many: factories being moved east in search of low-cost labour, cheap workers (“Polish plumbers”) moving west, gripes about new members being too pro-American and too quick to provoke Russia. If it comes to be associated with uncontrolled migration, that will have serious consequences.

In a 2006 opinion poll, for example, British voters narrowly backed the entry of Turkey by 42-39%, even though this prospect gives others the vapours (81% of Austrians were against, said the same poll). British

ministers have long led the camp making the strategic case for Turkey's admission (often in vain, as many in Brussels assume that British enthusiasm is just a ploy to widen the club to the point of irrelevance, following the principle that one can also kill a cat with cream). Yet even in Britain the ground may be shifting, as the press fills with shrill stories about new migrants from central and eastern Europe. For years, Neil O'Brien, director of a Eurosceptic campaign outfit, Open Europe, has asked British focus groups what the words “European Union” bring to mind. In the past, the reply has usually been red tape and gravy trains. But his most recent focus group offered a new word: immigration.

One does not, in any case, have to be an opponent of enlargement to feel uneasy about the countries now waiting in line. Turkey and the remaining Balkan candidates are hard cases: that is why they are still in the queue. The easy bits of the ex-communist world—fast-growing countries run by former dissidents or suave businessmen, their capitals filled with gems of Hanseatic or Habsburg architecture—joined the club in 2004. There is also a belief that, to quote a diplomat, “Romania and Bulgaria came in too soon”, and have been sliding away from reforms ever since.

Admittedly, there have been problems absorbing new countries in the past—Greece and Portugal, for instance. But the process is more demanding now that the EU does so much. In the old days, new members were pressed to catch up economically and open their markets in exchange for dollops of aid. Now they must aim for membership of the single currency (Slovenia already uses the euro) and the border-free Schengen area (set to expand next month). The police and courts in all EU members are under closer scrutiny, thanks to the push for “mutual recognition” of each others' court judgments, and such new wheezes as the Europe-wide arrest warrant.

The grand bargain

The strategy for Turkey and the Balkans has so far meant avoiding two bad options: either letting new countries in too soon, or pushing entry so far off that they give up on reforms and turn their backs on Europe. This strategy has been pursued by means of a grand bargain: the EU gets to impose tough, painful conditions for entry, in return for being believed when it says that eventual membership is the destination. Alas, too many national governments have been muddling both messages.

Thus France's president, Nicolas Sarkozy, has said that Turkey should never join the EU, and indeed hinted that any further enlargement is by no means inevitable (although a committee on French constitutional reform chaired by a former prime minister, Edouard Balladur, recently recommended scrapping a provision dreamt up by Mr Sarkozy's predecessor, Jacques Chirac, to put any EU enlargement after Croatia to French voters). On the other hand, there have also been mixed messages about the entry conditions. Croatia is not really ready to join, says one official (organised crime remains a big concern). But it will probably get the nod by 2010 or so, thanks to its friends in the Habsburg club of countries formerly in the Austro-Hungarian empire.

The EU gets into its worst pickles when the gap between rhetoric and reality becomes too wide. Over enlargement, that moment may be near. The grand bargain with applicants is wobbling, and the pact of trust with EU citizens is in bad shape. Political leaders need to give this closer attention. Or it will not only be Brussels that is jarred by breaking news.

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Politics

The vision thing

Nov 8th 2007
From The Economist print edition

Reuters

Gordon Brown should show more of it, but this week's Queen's Speech was not the bust his opponents claim

Gordon Brown

FOR tourists who arrive in London expecting to revel in quaint rituals and are perturbed by the aggressive modernity they find instead, the state opening of Parliament is a welcome respite. The queen proceeds by carriage to Westminster, her crown travelling separately. An MP of the party of government is left at Buckingham Palace as a “hostage” pending her safe return. Beefeaters check Westminster's cellars for gunpowder. A man named Black Rod is dispatched to summon the “commoners” (ie, MPs) to the queen's presence in the House of Lords; the door of their chamber is slammed in his face and he pounds on it to gain admission. Ministers walk backwards, trying not to trip on their robes. At the centre of it all, on a throne ornate to the point of gaudiness, the queen reads out the legislative agenda of “her” government, written on goatskin vellum.

The content of that speech is usually more prosaic, and this year was no exception. At the heart of it were bills aimed at doing something to help stranded teenagers who are out of school but not in work or training, speeding up house-building and toughening the laws dealing with terrorist suspects. There was also legislation to strengthen Parliament, improve regulation of hospitals, and create binding targets for carbon emissions. A busy programme—29 bills in all—but, said the Conservative and the Liberal Democrat opposition, not the big vision for the country that Gordon Brown said he wanted to unveil when he decided last month against a snap election.

The prime minister's defenders rightly note that the Queen's Speech is meant to be a to-do list rather than an inspiring story; other set-pieces in the political calendar are better suited to overarching narratives. Neither is it wrong to focus on detail: Tony Blair conjured grand designs but found delivering them much harder, and people grew thoroughly sick of him.

But Mr Brown has not taken earlier and better opportunities to set out a vision: his party-conference speech in September was solid but unspectacular, and the highlights of the pre-budget report on October 9th were policies hurriedly borrowed from the Tories. Yet many on his own side want him to eschew political dog-fighting and build the “progressive consensus” he has spent years talking about. A pamphlet released on November 1st by the Fabian Society, a think-tank loyal to Mr Brown, urged him to do more of the “vision thing”.

Those who want the prime minister to paint a big picture make two claims. One is that it suits his talents.

Day-to-day political manoeuvring works for nimble politicians of the Bill Clinton variety; Mr Brown's strength lies in strategy rather than tactics. His recent attempts to outfox the Conservatives, by prolonging speculation over an early election and making policy pronouncements from Iraq during their party conference, backfired. By contrast, when he stakes out an important long-term policy—for example, the need for much greater investment in public services—he often triumphs. The high spending that seemed radical when it began in 2000 is now accepted by the Tories.

The second argument is that a government without a compelling narrative must rely on competence as its reason for existing. If it makes mistakes and these come to light (as one did last month, when ministers admitted they had underestimated the number of new foreign workers), voters begin to ask, along with David Cameron, the Tory leader, what the point of it is.

Despite all this, the Queen's Speech worked for Mr Brown in many ways. It has, for instance, drawn attention to specific policy questions that put the Tories in a difficult position. Will they support the extension of the school-leaving age from 16 to 18, for example, or new flexible working-time rights for the parents of older children? If they do, the impression that the Tories are now making the intellectual running may be reversed. If they don't, they are vulnerable to the charge that their vaunted commitment to work-life balance and educational opportunity is hollow.

Security is another issue on which Mr Brown believes the Tories can be wrong-footed. The party opposes his proposal to extend the maximum period that a terrorist suspect can be detained without charge (see article). There is broad public support for it, though, and some senior Conservative MPs too are privately sympathetic. Mr Blair was defeated on the issue, but his successor has grounds for hope this time. For one thing, he is proposing to extend the limit from 28 days to an as-yet-undisclosed number, perhaps near 56—not in a giant leap from 14 to 90, as Mr Blair tried to do, before Parliament scaled back his ambitions. And whereas Mr Blair was seen as contemptuous of civil libertarians and was thus mistrusted by them, Mr Brown asserted his liberal credentials in word (he gave a well-received speech on liberty on October 25th) and deed (he proposes extending freedom in areas such as the right to protest). He may thereby have earned himself some wiggle room.

And Mr Brown is not entirely without a vision, though his opponents are right that he has not yet given it adequate expression. He is genuinely passionate about certain causes, and his legislative agenda suggests them. He plainly cares about social mobility, perhaps more than any other issue. And he has a long-standing, if guarded, interest in constitutional reform, an issue that seldom animated his predecessor. If he does not call an election until 2010 (as many in Westminster now think likely), he will have other opportunities to sell these causes in more exhilarating form. There is a story called Brownism, though it is one waiting to be told.

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Terrorism

And how not to fight it

Nov 8th 2007
From The Economist print edition

Britain's top cop and prime minister are both crying wolf

Get article background

SPIES seldom step out of the shadows, but when they do they make the news. A year ago Dame Eliza Manningham-Buller, then head of MI5, attracted headlines when she revealed that her agency was tracking some 1,600 suspected terrorists—a sixfold increase from 2001. This week Jonathan Evans, her successor, said that more than 2,000 people were now on the list, and "as many again that we don't yet know of" were suspected.

It was against this background that Sir Ian Blair, the Metropolitan Police Commissioner, fought this week to save his job as Britain's top-ranking policeman. On November 1st his force was found guilty of endangering the public through a "catalogue of errors" that led to the shooting on July 22nd 2005 of an innocent man, mistaken for a terrorist. No individual was singled out for punishment but the taxpayer-financed police force was fined £175,000 ($368,000), plus legal costs, for the "corporate failure". Sir Ian apologised and promised to do better, but as *The Economist* went to press he was turning a deaf ear to calls for his resignation.

His supporters, who include the home secretary, Jacqui Smith, and Ken Livingstone, London's mayor, reckon that a tragic but understandable excess of zeal in the confusing aftermath of the second terrorist attempt in a month on London accounted for the death of Jean Charles de Menezes. Sir Ian has proved a doughty crime-smiter and policing moderniser. To make the ace cop pay for a mistake that had no author and occurred in the heat of righteous battle would cheer only terrorists.

Others are less convinced. When there is corporate failure, the person who represents the corporation should take the rap, they maintain. Sir Ian's authority is shot anyway. On November 7th the London Assembly passed a vote of no confidence, asking the Metropolitan Police Authority to sack Sir Ian. The following day the Independent Police Complaints Commission (IPCC) published a report on the specific circumstances surrounding the shooting with yet more criticism of the Met and its embattled chief. And the way has now been cleared for an inquest into de Menezes's death that will give his family the chance to put other questions. A pre-inquest hearing is scheduled for December.

Mr Evans's warning that terrorist activity is increasing provided an equally useful backdrop for the prime minister. The day after the intelligence chief's remarks, Gordon Brown outlined (for at least the third time) controversial new anti-terrorism powers that he wants to introduce. Top of his wishlist is extending the period of time for which terrorist suspects can be held without charge, a measure that most policemen back. In the past seven years this period has increased from four days to 28 (see chart). The main opposition parties say they won't raise the limit again without compelling reason to do so and some Labour backbenchers are not keen either.

The government has struggled to come up with convincing evidence. Gordon Brown said in July that six suspects had already been held for 27 or 28 days, implying that the police were up against the buffers. Others claim the police use the full extent of whatever limit they have, whether it is 14 days or 28. Suspects can already be held without charge in Britain for longer than in any other big European country. Legal systems differ, but last month Spanish courts convicted 21 people involved in the Madrid train bombings although their police had had just 13 days to find probable cause to charge those detained. And the prospect of harsh treatment on possibly flimsy grounds will deter some Muslims from giving the police useful information.

The biggest argument against giving the police more powers, however, is provided by the de Menezes shooting itself: they have misused the ones they have. Sir Ian should go; the 28-day limit should stay.

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Northern Rock

The English patient

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From The Economist print edition

Should the stricken bank or the stricken taxpayer be salvaged?

LIKE a man in intensive care, Northern Rock is hooked up to a life-supporting transfusion of taxpayers' cash. First extended by the Bank of England in mid-September, the loan was expected to stabilise the stricken lender and allow it to make a quick recovery (or a graceful exit under someone else's name) once the turmoil in global credit markets had eased. Not a chance. Eight weeks later, Northern Rock's vital signs are deteriorating fast and its debt to the state is mounting.

The government is thought to have put in up to £23 billion ($48 billion), and the sum is growing by £2 billion-3 billion a week as depositors continue to flee. At least £10 billion of the bank's £24 billion in retail savings has already been withdrawn, some say, and Northern Rock is having little luck persuading banks to lend it new money as its existing loans come due. State support for Northern Rock already exceeds Britain's transport budget and could soon surpass the £32 billion allocated to defence—a particular embarrassment for a government accused of under-equipping its soldiers in combat zones.

But problems bigger than embarrassment loom. The authorities are desperate to regain their reputation as prudent custodian of the world's biggest international financial centre. The task is not helped by recurrent bouts of finger-pointing. In a radio interview on November 6th, Mervyn King, the governor of the Bank of England, seemed to blame Alistair Darling, the chancellor of the exchequer, for missing opportunities to avert the crisis.

Three big questions now face the Treasury, which has taken the lead in sorting out the Northern Rock mess. The first is how to get taxpayers' money back, and quickly. Some believe that this would be most easily achieved by breaking up the bank and selling it off in bits. But this conflicts with a second, which is how to avoid destroying the bank and losing highly visible jobs in the north-east, one of England's poorer regions and, inconveniently, one filled with hitherto stalwart Labour voters. The third is whether either goal can be achieved without handing private-equity investors, in particular, a chance to make a bundle on the back of the government guarantee. Such an outcome would set the seal on the most ignominious episode in recent British banking.

Saving jobs seems the likelier choice. Two of the three possible buyers to emerge so far are believed to want to keep Northern Rock's branch network. First in the field was J.C. Flowers, a private-equity group with a history of buying and turning around distressed banks. The firm has an impressive list of City grandees lined up to run the bank and (less illustriously) an ongoing court case in America that stems from its abandonment of an agreed deal to buy Sallie Mae, a government-guaranteed lender to students. Sir Richard Branson's Virgin Group, a second bidder, has a petite but innovative financial business and prudent plans to turn Northern Rock into a smaller, risk-averse mortgage bank. Cerberus, another private-equity firm, is keeping mum about its plans.

None of the proposals sits well with the Treasury. All three groups are understood to have insisted the central bank promise to keep lending to Northern Rock, and at a rate lower than the penal one it is charging now. Some £25 billion-30 billion (including what the central bank has already put in) may be needed to keep the bank going, and none of the three is thought to have raised more than £15 billion.

To break this logjam, Blackstone, a private-equity firm turned gamekeeper, was brought in on October 31st to advise Northern Rock under the Treasury's alert eye. Blackstone is thought to have contacted some 50 institutions, including French, Spanish, Indian and Chinese banks, to widen the pool of bidders.

Blackstone is also approaching lenders to secure credit lines totalling some £25 billion, promising to improve Northern Rock's credit rating, if need be by cleaning up its balance sheet and selling less easily traded assets to specialist hedge funds. In theory this could allow the government to withdraw much of its support, but few believe it will get off lightly.

At the punitive rate Northern Rock pays the Bank of England today, it cannot make a profit on any new mortgages and is losing money on many of its old ones. Its new lending is thought to have slumped to a few hundred million pounds a month, less than a quarter of the volume in the first half of the year. The longer it takes to reach a deal, the less there will be left to buy. A restructuring and sale may save Northern Rock from a lingering death, but any recovery is likely to be slow and painful.

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Channel Tunnel rail link

Bang on time

Nov 8th 2007
From The Economist print edition

The completion of the Channel link shows up Britain's doddery railways

Get article background

WHEN it first opened in 1868, London's St Pancras station was the latest industrial marvel in an age bursting with them. Known as the “Cathedral of the Railways”, its imposing ironwork train-shed was for a time the largest enclosed space in the world, and its neo-Gothic exterior was designed to outclass every other station in the capital. But as the industrial age waned, so did St Pancras. Gradually overshadowed by nearby King's Cross and Euston, the area surrounding it became a notorious gathering-point for prostitutes. For many years its main claim to fame was that Douglas Adams, a British science-fiction author, cast it as a washed-up Valhalla for his down-and-out Norse gods.

On November 6th the gods were the only dignitaries not present as the queen re-opened the station after a ten-year restoration. Spotlights shone, the repainted ironwork gleamed and new Eurostar trains glided alongside platforms to the strains of classical music.

The renovated station marks the final phase of the Channel Tunnel Rail Link, a £6 billion ($12 billion) 109km (68-mile) high-speed railway linking London to the Channel Tunnel, and from there to Paris and Brussels. The first phase ended in 2003, with trains whizzing along high-speed lines as far as north Kent and then trundling over domestic track into Waterloo station. That will change on November 14th, when the first Eurostar train arrives at St Pancras and the station opens to the public. Journey times to Paris will fall by 20 minutes, to 2¼ hours.

Travel times are brisk because the line is built to European specifications. The trains are based on French TGV models and will run at 186mph, half as fast again as the quickest domestic services. Rob Holden, the boss of London & Continental Railways (LCR), the firm that built the link, has decided to rebrand his railway “High Speed One”, which suggests a sequel may be forthcoming.

That will be music to the ears of enthusiasts who have been lobbying for a high-speed rail network in Britain for years. They note that come November 14th it will be quicker to get to Paris from London than to Leeds or Plymouth, let alone Newcastle or Edinburgh.

For now, this seems wishful thinking. The Channel link had a difficult gestation, and was rescued by the government when money ran out in 1998. The National Audit Office, a spending watchdog, has questioned its economic rationale, although LCR insists that the sums look better when urban-regeneration benefits are taken into account. Sir Rod Eddington, commissioned to study Britain's transport network, was dubious about high-speed lines in so compact a country. But although they still fall short of the original projections, passenger numbers on Eurostar trains are up strongly this year as people flee Britain's gridlocked airports. If the link proves popular, ministers may just reconsider.

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Education reform

Must try harder

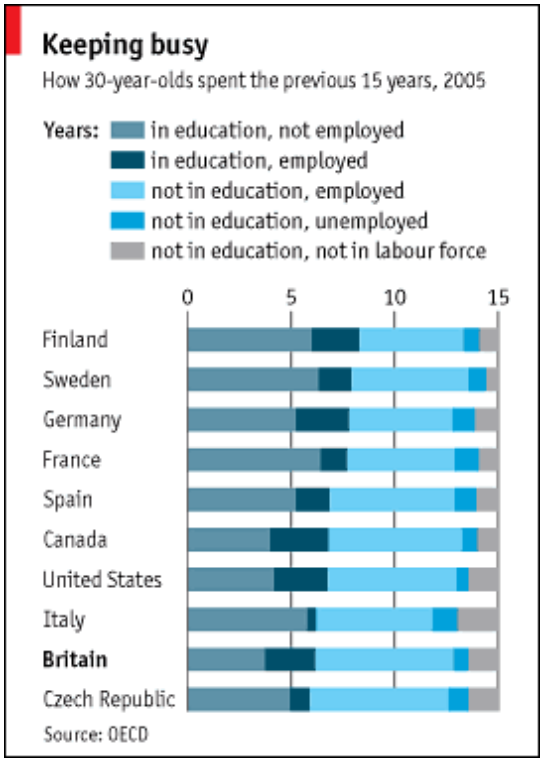
Nov 8th 2007
From The Economist print edition

A shake-up of schooling may miss those most in need of help

Get article background

THE idea was first mooted in 1918, when an education act made provision for young people to stay in school until they turned 18. But young men, and teachers, were being sent off to fight, and the leaving age was raised from 12 to just 14. War again stymied bold moves in 1944, when the age was nudged up to 15. And in 1972 it was raised to just 16, teacher shortages and the baby boom this time the obstacles.

Now, after a mere 90 years, the age at which young people leave education in Britain is at last to be lifted to 18. The measure, announced in the Queen's Speech on November 6th, reflects a determination to bring Britain into line with the rest of the developed world, where education and workplace training tend to continue much later (see chart). New qualifications and training programmes are being created at the same time. Taken as a whole, the plans amount to a radical shake-up.



Much of the impetus comes from the conviction that in future Britons will need to be better qualified to get work. There is already cause for concern. Plenty of new jobs have been created during the past decade, but many have gone to better-educated workers from abroad. And the government thinks things will only get tougher. In July it accepted the findings of a review by Lord Leitch, which predicted that by 2020 the number of low-skilled jobs in Britain would collapse catastrophically. It recommended lots more training, for both those who already have jobs and those who are seeking them.

The plight of the so-called “NEETs”—young people not in education, employment or training—is another powerful reason to reform things. At any one time about 10% of those between 16 and 18 fall into this category. The 1% who stay in it for the whole two years are likely to end up among the long-term unemployed.

So from 2013 all 16-year-olds will have to spend at least 16 hours a week in education or work-based training. The only alternative will be working at least 20 hours and training in the classroom for just a day a week. These rules will be extended to 17-year-olds in 2015. Hold-outs may be served with an “attendance order” (already nicknamed an “education ASBO”); breaching this will be a criminal offence to be punished by a fine of £50.

But the government thinks its other plans will dangle sufficiently juicy carrots before disaffected youngsters to lure them back into learning or training without much wielding of big sticks. A separate bill, announced on the same day, will increase the number of apprenticeships available, so that by 2013 any suitably qualified youngster who wants one will be guaranteed a place. “Entry 2 Employment”, a work-based programme for those between 16 and 18 who cannot read, write and figure well enough to go straight into an apprenticeship, will be extended too. And staying on at school is to be made more tempting: maintenance allowances, which pay poorer youngsters £30 a week to keep learning, will be handed out more lavishly.

For those who would like to stay in school, at least some of the time, new “specialised diplomas” are supposed to bridge the chasm between academic and vocational study, which is particularly wide and

deep in Britain. The low status of the vocational path means that few able youngsters are tempted down it. And practically-minded ones are unlikely to shine in highly academic A-levels.

The first five diplomas will be taught from 2008, and by 2013 all teenagers will have a wide range of diploma subjects to choose from. Fourteen are primarily vocational, such as construction and retailing, but include a good deal of classroom learning. And three are mostly academic—humanities, science and languages—in a bid to tempt universities into taking diplomas seriously. Some see in this development a sign that A-levels are on their way out.

That so many young people spend part of their time as NEETs suggests that they see no clear way forward, flitting in and out of short-term jobs and undemanding courses. Many of those who idle about for the full two years do so because they face intractable problems, such as drug addiction, homelessness and early childbearing. The danger is that the new plans will mostly restrict the choices of youngsters who would prefer to work and pick up an education in the university of life, and are perfectly capable of doing so, while leaving the needier hard core untouched.

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Interest rates

Waiting game

Nov 8th 2007
From The Economist print edition

The Bank of England stands firm, but cuts are on the way

Get article background

LIKE some poltergeist, the financial crisis keeps on thumping confidence just as it seems about to return. This week there was much alarm when Mervyn King, governor of the Bank of England, said it would take several more months before banks revealed all the losses they have incurred and took the necessary action to deal with them. His warning followed significant declines in the price of British bank shares. On top of all that, the world oil price has continued to soar, pushing the average price of petrol up to £1 ($2.10) a litre.

Yet on November 8th the central bank's monetary-policy committee once again decided to keep the base rate at 5.75%—the level it has been at since July. The main reason for the decision was the continuing resilience of the British economy. The latest figures for GDP show no sign of the recent financial turmoil. National output grew in the year to the third quarter by 3.3%, the fastest increase for three years and well above the underlying growth rate of around 2.5-2.75%.

The recent upswing has been boosted by a sharp recovery in business investment but it also owes much to the fact that consumers are still in fine fettle. Retail-sales growth has picked up, reaching 5.2% in the third quarter compared with the same period in 2006. One reason is that the housing market, although showing some signs of weakness, has remained sprightlier than expected. Though house prices fell by 0.5% in October, according to HBOS, a bank, they rose by 1.1%, on figures from the Nationwide Building Society.

While GDP growth has remained buoyant, the rate-setters have been reluctant to ease policy. After all, it wasn't that long ago that Mr King had to write a public letter explaining an inflationary overshoot. Inflation has since subsided to a level below the government's target, but the bank worries that it may rebound as an economy with little spare capacity runs at full tilt. And although sterling has strengthened markedly against the dollar, reaching $2.10 on November 7th, its overall trade-weighted value has slipped by around 2% in the past three months, which will add to inflationary pressure.

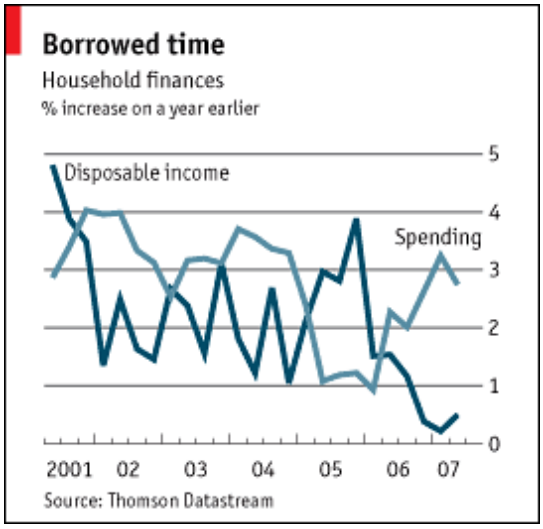
Yet most in the City think the bank will cut rates before long. In a sign that the economy is now starting to slow, manufacturing output fell by 0.6% from August to September. More worrying still was a downbeat report from the services sector, which dwarfs manufacturing as a share of the economy. The purchasing managers' survey reported a pronounced slowdown in activity in October, bringing it down to its lowest level since May 2003.

These declines are consistent with the first impact of the feared credit crunch, as banks raise their lending rates and become more reluctant to make loans. And since the financial malaise is not confined to Britain, the economy will be hurt by slowing exports. Prospects for growth in America and the euro area are being scaled back.

Britain's economy will also take a hit as the City suffers from the slowdown in international financial activity. Business investment too is likely to slacken in the months to come, partly because the overall economic outlook has darkened and partly as a consequence of tighter credit.

The main worry, however, is that consumers will finally pull in their horns. The recent strength of household spending (see chart) is a minor miracle given that disposable income has been creeping ahead at its slowest rate since 1982. A drop in saving made this possible, but consumers are now likely to respond to tighter credit and slowing house prices by rebuilding their finances and curbing their spending.

So although Britain's central bank has yet to follow America's in cutting interest rates in response to the credit crunch, this seems only a matter of timing. The bank will set out new projections for growth on November 14th, when it publishes its quarterly *Inflation Report*. It will almost certainly signal that monetary easing is on the way to counter what otherwise might be too sharp an economic slowdown.



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London's super-rich

Where do the millions go?

Nov 8th 2007
From The Economist print edition

It costs more to keep up the lifestyle

Get article background

IT IS rarely a bad time to be rich, but now is better than most, especially in London. Over the past few years the city has become a magnet for the global plutocracy, attracted by lavish nightlife, luxuries of all sorts, easy access to the rest of the world and, most of all, a comparatively benevolent taxman. Russian oligarchs mix with American tycoons and Middle Eastern oil magnates in what *Forbes* magazine, bible of the global super-rich, described last year as “a magnet for the world's billionaires”.

But a study published on November 5th suggests that not all the news is good. According to Stonehage, a firm of financial advisers to London's multi-millionaires, it is costing the capital's many plutocrats much more to maintain their standard of living than it used to. They reckon that prices of luxury goods and services increased by 6% in the 12 months to July, more than twice the 2.3% rise registered on the official consumer-price index (CPI).

Existing government inflation measures do not quite capture the upper-crust experience, Stonehage says. The CPI, for example, ignores many housing costs that rich and poor alike must pay, and the more comprehensive retail-price index excludes the richest 4% of consumers. Stonehage's new Affluent London Living Index is designed to fill the gap.

The details are enough to make an investment banker splutter into his increasingly expensive caviar (the price of which rose 28% over the year). Rents in central London have increased by 25% since 2002. A top-line Range Rover today costs 20% more than last year's model. Fees for day pupils at Westminster (a fancy independent school) are up by 7%, and the price of a case of Lafite Rothschild by an eye-watering 117%. Leisure has grown pricier as well: two days of grouse shooting costs 8% more this season than last and an executive box at Chelsea Football Club, London's most fashionable, has risen by 25%. Robby Hilkowitz, a director of Stonehage, blames a rapid increase in the ranks of the mega-rich for pushing up prices.

Exceptions there are: cars may be getting pricier but chauffeurs are no dearer than they were. Nor are fancy haircuts or membership of gentlemen's clubs. Entry-level private jets are actually 7% cheaper, although high oil prices could make the fuel bills painful. Breast implants for the high-earning woman are down 10%.

Yet rising consumption costs tell only half the tale. Most of the ultra-rich have the bulk of their wealth invested, so they have benefited handsomely from the sustained boom in asset prices. The same central London house that costs 25% more to rent is worth 150% more on the market. And sympathy for the plutocrats' plight may be hard to find among the great hordes of the salaried unwashed (many of whom also live in London), whose real disposable incomes are being squeezed.

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Transatlantic relations

Life in the old European dogs yet

Nov 8th 2007 | BERLIN, ISTANBUL AND PARIS
From The Economist print edition

AFP

A renewed friendship between America and its once-tricky partners may prove to be longer on style than substance

COME back, old Europe, all is forgiven: that seemed to be the tune playing in Washington this week as the leaders of France and Germany—countries once despised by American hawks for their churlish refusal to back the invasion of Saddam Hussein's Iraq—were received with a mixture of fanfare and homespun warmth by George Bush.

Having made known his weakness for American popular culture (holidays in New Hampshire, iPods, jogging, New York Police Department T-shirts), Nicolas Sarkozy proved that he was equally at home with Washingtonian pomp and ceremony: enjoying lobster bisque and lamb at a grand White House dinner, and addressing both houses of Congress—an honour once accorded to the Marquis de Lafayette, a Frenchman who fought for America's independence from Britain. “In times of difficulty, in times of hardship, friends stand together,” Mr Sarkozy assured America's legislators. “I want to be your friend, your ally and your partner.”

A more homely repast, perhaps including the hamburgers that Mr Sarkozy adamantly professes to like, awaited Germany's Chancellor Angela Merkel as she headed for the presidential ranch in Crawford, Texas. In short, this week's visitors are getting a level of hospitality which, until recently, only one European leader—Tony Blair—could be sure of receiving. For the moment at least, the Bush administration seems far more excited by hobnobbing with senior French and Germans than it is by Mr Blair's successor as British prime minister, Gordon Brown. As Charles Grant of the Centre for European Reform, a think-tank, puts it, the Americans respect Ms Merkel as the main driver of the European Union's emerging foreign policy, and they are impressed by Mr Sarkozy's efforts to reorient France (in a pro-American direction) and upgrade its military ties with NATO. By comparison, Mr Brown has so far chosen to be a bystander.

Behind this week's extravagant shows of hospitality lay some real points of convergence, and some problems that refuse to go away. Both European visitors are worried about the ever-growing assertiveness of President Vladimir Putin's Russia, on issues ranging from energy supplies to Kosovo. (There is a risk of a diplomatic crisis next month if, as expected, a Kosovar declaration of independence is recognised by America and most EU countries, but not Russia.) Both welcome the Bush administration's late conversion to the idea that climate change is a serious problem, but both wish that this would translate into an acceptance of binding curbs on the emission of greenhouse gases.

Amid all the bonhomie, both hosts and guests are emphasising how keen they are to stop Iran getting nuclear weapons. The Europeans say they accept that it may be necessary to ratchet up sanctions against the regime in Tehran. What is not clear is whether this declared enthusiasm for further sanctions reflects a sincere belief in the need to do whatever it takes to thwart Iran's nuclear ambitions—or an attempt to assuage what they perceive as the enthusiasm of at least some American officials for a military strike on Iran. Karsten Voigt, the German diplomat in charge of transatlantic ties, sees a "minimal risk" of an American-Iranian clash before the 2008 presidential election. But not everybody in Washington or Berlin is so sure.

If there is a laggard in the front against Iran it is Ms Merkel. In an interview with the *Berliner Zeitung*, a newspaper, published this week, she said that if the current talks between international institutions and Iran were not successful, then "Germany would be prepared for broader and sharper sanctions" against that country. But she clearly does not want to circumvent the UN Security Council, where Russia and China are for the present blocking what would be a third sanctions resolution ordering Iran to stop enriching uranium. "The place where sanctions will be negotiated is the UN. The effectiveness of sanctions will be greater [if] more people take part in them," she said.

Many Germans doubt the value of sanctions against a country with a vast oil income, especially if participation is patchy. Iran will dismiss any sanctions imposed by a minority of countries as coming from "a few imperialist powers", argues Volker Perthes, head of the Stiftung Wissenschaft und Politik, a think-tank in Berlin. It is "wiser to go for a Security Council resolution even if it takes more time and the sanctions are lighter," he says. "Iranians don't like to be isolated."

As Ms Merkel will find, such insistence on finesse in dealing with Iran is not widespread in Washington, DC. The Americans recently clamped a new batch of their own sanctions on Iran while they are forced by Russia and China to wait for further action from the Security Council. Mr Sarkozy, too, has been pushing the European Union to impose new sanctions of its own, without waiting for the Security Council.

One sign of the enduring strength of transatlantic ties, arguably, is the fact that America and all its main allies have been contributing to the fight against the Taliban in Afghanistan, albeit with varying degrees of enthusiasm. Mr Sarkozy made a point of telling Congress that France would not "let America down" in Afghanistan. His country has 1,100 troops on the ground in that country as part of a NATO force. It pulled out 200 special forces earlier this year, but recently promised more help, perhaps 50 trainers.

On November 7th the German government approved a one-year extension of its participation in the American-led "Operation Enduring Freedom", under which 250 Germans help patrol shipping off the Horn of Africa, while an unknown number of elite troops operate within Afghanistan. Germany has also extended its role in the separate International Security Assistance Force, involving 3,000 troops (in the hitherto safe north of Afghanistan). But there are widespread doubts in Germany about the Afghan deployment; Ms Merkel downplays the idea that more foreign troops were needed. The main point was to "give the process an Afghan face."

If her adviser Mr Voigt is right—that a showdown with Iran is not as imminent as some fear—then France and Germany will soon be looking beyond the Bush administration to map out their relationship with the next (probably Democratic) administration. However Philip Gordon, a veteran Europe-watcher and adviser to the presidential campaign of Barack Obama, says that even under a Democratic president there would be a risk of disappointment. Europeans would expect a Democratic president to give ground to their concerns over say, climate change, and Americans would expect better co-operation over Iran and Afghanistan. But such hopes could all too easily be dashed.

All pretty hypothetical stuff—in contrast with the urgent matters that Mr Bush discussed at a less spectacular but arguably more important meeting with another European NATO ally: Recep Tayyip Erdogan, the prime minister of Turkey. François Heisbourg, a French security pundit, said the encounter with Mr Erdogan mattered more than the showy love-ins with the French and Germans.

What the American-Turkish summit (which may have forestalled a possible mass Turkish incursion across the border into northern Iraq) brought home is that in a dangerous world, the political leaders of both countries have a deep sense that they need each other. Mr Erdogan lacks the sophistication of Mr Sarkozy, or even the reassuring style of Ms Merkel. He cut an awkward figure in Washington's National Press Club when challenged over the 1915 massacres of Armenians—insisting that what occurred was a humane deportation, with the victims given "pocket money".

AP

Turkish soldiers on the Iraqi border: does anyone understand us?

But at a news conference with Mr Bush, Mr Erdogan repeatedly used the words “strategic partner”—as though he wanted to send a signal to his compatriots who are furious with America for condoning or failing to curb Kurdish separatists in northern Iraq. Mr Erdogan's implied message was that, despite a decline in military-to-military ties (which used to be the heart of Turkish-American relations), his country cannot do without a friend that has more sense of Turkey's strategic role (and the importance of a pro-Western Muslim country) than people in Paris or Berlin have.

There is no guarantee that Mr Erdogan's desperate efforts to keep the Turkish-American relationship intact will succeed: anti-American sentiment is now too widespread in Turkish society for anyone to wish it away; and there are also uncertainties about how American officials, so used to dealing with the Turkish army, can get along with a country where Mr Erdogan's brand of moderate Islamism is on the rise.

But Mr Erdogan's trip to Washington probably cost White House officials more sleep than anything else this week. America sometimes differs with its partners in the settled, rich world because they cannot agree what to do about unsettled places with the potential to explode. The eastern fringe of Turkey is one such place.

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Libel law

Sheikh it all about

Nov 8th 2007
From The Economist print edition

How far can a Saudi sheikh use English law against an American author?

CAN the guarantee of free speech in America's first amendment trump English libel law? That is the question facing New York's Court of Appeals, in a case starting on November 15th. Rachel Ehrenfeld, a New York-based author, is seeking a ruling that an English libel judgment against her cannot be enforced in America and that her book, “Funding Evil”, is constitutionally protected free speech.

Ms Ehrenfeld's book makes a series of allegations about the charitable activities of a wealthy Saudi businessman, Khalid Mahfouz, all of which he strenuously denies. Mr Mahfouz has won numerous victories in English courts against those who have sought to link him to Islamist terrorism. In August, for example, Britain's Cambridge University Press withdrew all copies of “Alms for Jihad”, a book taking a similar line to Ms Ehrenfeld. That caused a furore: American librarians have refused the publishers' request to withdraw the book from their shelves; surviving copies change hands for hundreds of dollars on the internet.

“Funding Evil”, by contrast, was never published in Britain; indeed it sold only a few dozen copies there, via internet booksellers. Ms Ehrenfeld and her publishers were not represented in the court hearing in London in 2005. “English law does not apply here since 1776, when we won our independence,” she says. That did not impress the judge, Mr Justice Eady, who awarded £10,000 ($21,000) damages—the maximum possible in a summary hearing of an undefended action—to Mr Mahfouz and to two co-plaintiffs. He also declared her allegations against Mr Mahfouz false, and criticised her for using the English court proceedings to advertise her book, citing its intentionally eye-catching new subtitle: “The book that the Saudis don't want you to read.”

Mr Mahfouz's camp claim they are being misrepresented. Their lawyers have never tried to collect damages or costs from Ms Ehrenfeld, nor have they argued that the English court's judgment applies elsewhere, so there is no reason, they say, for a New York court to hear the case. Next week's arguments, they add, will be about jurisdiction, not free speech. The fact that Ms Ehrenfeld was served papers in New York notifying her of the London proceedings—so Mr Mahfouz's lawyers maintain—does not mean that their client conducts business in New York. That argument has already been accepted by a lower court.

None of that cuts very much ice with free-speech defenders in America, who have long detested English libel law for placing the burden of proof on the author, and for the huge costs that defendants face: even brief proceedings quickly run into six figures. Unless American courts take a stand, so they argue, English libel law is likely to deter anyone who feels inclined to investigate important but controversial subjects.

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The Commonwealth and conflict

Don't dare put me in a box

Nov 8th 2007
From The Economist print edition

A report on how not to solve disputes

AP

Clarkson: learning to avoid disintegration

Get article background

DID you ever hear about an Indian economist, a Ghanaian-American philosopher, a Chinese-Canadian stateswoman and a Northern Irish politician who tried to work out why so many groups of people were fighting each other and what could be done about it?

Along with seven other public figures, the above luminaries—respectively Amartya Sen, Kwame Anthony Appiah, Adrienne Clarkson and (Lord) John Alderdice—have spent two years preparing a report*; their formal remit was to consider "respect and understanding" as a way to stem conflict. The recipient of their collective wisdom will be the (formerly British) Commonwealth, whose heads of government, representing about 1.8 billion people, gather in Uganda later this month.

At first glance, the fruits of this huge array of brain power look rather modest: a slim volume which, when opened randomly, seems packed with familiar political correctness and concessions to the idea of victimhood. People feel aggrieved because they are poor, powerless or else they belong to groups (ethnic, religious, economic) which are not sufficiently respected, and one grievance feeds another.

But brevity is no sin—far from it—and amidst all this fluffy stuff are to be found some nuggets of very tough-minded thinking about the dangers of putting people into neat boxes—and the cynical way in which ethnic or tribal warlords or nationalist and religious zealots always try to shoehorn people into simple, unchanging categories because it suits their purposes and keeps conflict on the boil.

Perhaps that much is obvious to anyone who has observed a peaceful society slide into conflict, or simply struggle to avoid disintegration on linguistic lines, as Canada has done. What is less obvious is that people who are trying to put an end to conflict—be they soldiers or nice peace-brokers—often fall into the same trap as the belligerents, by assuming that people naturally divide into simple categories.

Instead of addressing, say, Protestants and Catholics and urging each “side” to think better of the other, it may be wiser to remind them that they have lots of other identities too: as parents, sports enthusiasts, believers in a political or economic ideology, music fans or whatever.

As Mr Appiah, a novelist and New Yorker who descends from famous British and Ghanaian politicians, puts it: “When a cab driver asks where I am from, what he really wants to know is why I am brown-skinned, so I tell him I grew up in Ghana....But when I go to a philosophy conference, what matters is which school of philosophers I belong to.”

From these personal musings, Mr Appiah derives some quite stern conclusions about the way Western societies have responded to terrorists acting in the name of Islam. After the terrorist bombs in London of July 2005, he thinks, Tony Blair shouldn't have appealed for moderation among “British Muslims”; he should have addressed British citizens as a whole.

Mr Sen, who was born in West Bengal in 1933, says he has been depressed by the way “Bangladeshi Muslim” identity has superseded all others—in contrast with 30 years ago when (in the early days of Bangladeshi independence) people of all religious backgrounds felt a Bengali solidarity that cut across religious affiliation.

The existence of lots of competing affiliations which pull people in different ways is the best hope of silencing gloomy talk of a “clash of civilisations” (with religion, and Islam in particular, often seen as the defining characteristic for giant global blocks). Such thinking is “deeply flawed on a conceptual level and deeply divisive in practice,” the report says.

As everybody knows deep down, the authors suggest, people belong to lots of categories (family, language, personal interests, political ideology) and spend their time shifting between them—unless some conflict arises in which a detail of family history becomes a matter of life and death.

At a minimum, say these authors, the authorities who are trying to keep inter-communal peace should not empower people whose authority depends on keeping divisions sharp. “It could be argued that, in Britain and America, attempts at engaging against terrorism...have had, at times, a perverse effect of magnifying the voice of extreme Islamists...faith-based approaches make it more difficult for politically secular Muslims to speak out against terrorism and violence,” the report argues. If anybody reads it carefully, it will stir some interesting arguments when those Commonwealth leaders gather.

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*Civil Paths to Peace: Report of the Commonwealth Commission on Respect and Understanding

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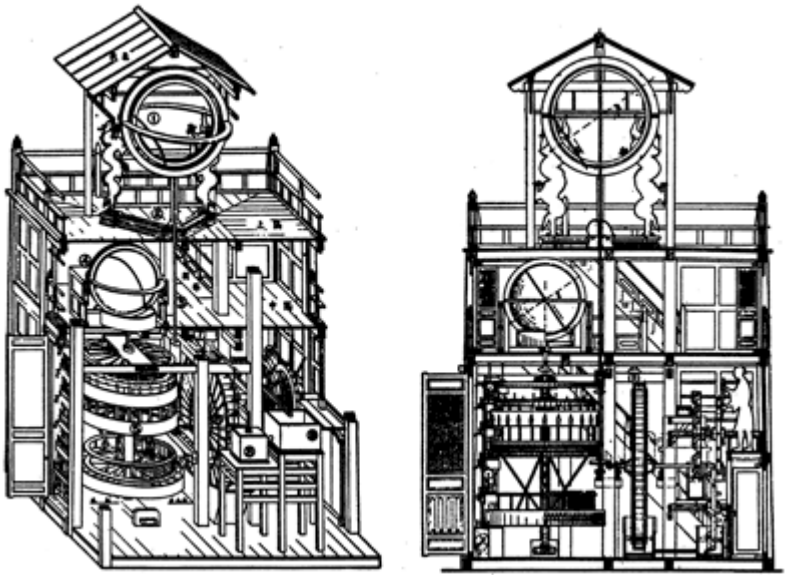
Running fast

Nov 8th 2007
From The Economist print edition

China and India have much to offer the world of technology, argues Simon Cox (interviewed here), but more still to gain from it

The Royal Society



TOWARDS the end of the 11th century, while tardy Europeans kept time with sundials, Su Sung of China completed his masterpiece: a water clock of great intricacy and accuracy. Standing almost 12 metres (40 feet) tall, Su's “Cosmic Engine” wavered, it is said, by only a few minutes in every 24 hours. From twin tanks filled by servants, a steady flow of water was cupped and spilled by a series of buckets mounted on a wheel. The rotation of the wheel turned the clock, as well as an astronomical sphere and globe that charted the movement of the sun, moon and planets. Drums beat 100 times a day; bells chimed every two hours. A replica, painstakingly built with contemporary methods, now turns in Taiwan's National Museum of Natural Science.

Clockmaking was only one scientific endeavour in which China and India comfortably led the world before the 15th century. China outstripped Europe in its understanding of hydraulics, ironsmelting and shipbuilding. Its machines for ginning cotton, spinning ramie and throwing silk seemed to lack only a flying shuttle and a drawbar to match the 18th-century contraptions that launched Britain's Industrial Revolution. Clean your teeth with a toothbrush, rebuff the rain with a collapsible umbrella, turn a playing card, light a match, write, pay—or even wipe your behind—with paper, and you register a debt to China's powers of invention.

India's genius, then as now, was in software not hardware. Its ancient civilisations ushered in a “mathematical revolution” from the fifth century, when Aryabhata devised something like the decimal system. In the seventh century Brahmagupta explained that a number multiplied by zero was zero. By the 15th century, Madhava had calculated *pi* to more than ten decimal places.

After the 15th century, however, the technological clock stopped in both countries, even as it accelerated in Europe. This peculiar loss of momentum, noted Joseph Needham, a great historian of Chinese science, takes some explaining. Why, he asked, did the science of Galileo emerge “in Pisa but not in Patna or Peking”?

In his book “The Lever of Riches”, Joel Mokyr settles on a simple explanation for China's technological stagnation: the country's imperial state lost interest. Its purposes were better served by continuity than by progress, and there was no rival source of power and patronage to pick up the threads it dropped. Roddam Narasimha of India's National Institute of Advanced Studies reaches a similar conclusion for India. “Up to the 18th century, the East in general was strong and prosperous, the status quo was

comfortable, and there was no great internal pressure to change the global order," he writes.

That diffidence no longer hampers either state. Both China and India are now restless with technological ambition. China's government does not have the luxury of choosing between progress and stability; it cannot enjoy social peace without economic advance. For the past 30 years it has tried to turn the clock forward. By 2015 its research scientists and engineers may outnumber those of any other country. By 2020 it aims to spend a bigger share of its GDP on research and development (R&D) than the European Union.

India, for its part, surveys the future with uncharacteristic optimism. Its technological confidence has grown immeasurably thanks to the success of its software and IT firms. The heirs to Aryabhata and Brahmagupta, India's digital ambassadors have won acclaim for their mastery of ones as well as zeros.

But even as India's technological powers make a splash in the world, they stir only the surface of its own vast society. India produces more engineering graduates than America. But it has only 24 personal computers for every 1,000 people, and fewer than three broadband connections. India's billion-strong population cuts both ways. Whenever an Indian demographic appears as a numerator, the resulting number looks big. But whenever its population is in the denominator, the number looks small. It is like looking at the same phenomenon from opposite ends of a telescope. As of now, India matters more to technology than technology does to India.

This is a pity. India and China still have more to gain from the adoption and assimilation of technology than from invention per se. Some of their best minds are adding generously to the world's stock of knowledge, but the more urgent task for the countries themselves is to make wider use of know-how that already exists. Indeed, the World Bank has calculated that India could quintuple the size of its economy if it only caught up with itself—that is, if the mediocre firms in its industries closed the gap with the best. Both countries miss out when policies to promote invention, such as China's push for "indigenous" innovation or India's recent patent laws, serve to stymie diffusion.

A year in China, foreign residents say, is like ten years outside. Its clock is already turning rapidly. But the cogs and levers that drive technological progress are as intricate and delicate as Su Sung's mechanism. China's government is in danger of trying to do too much. Its monumental efforts to educate and train have filled the tanks of its innovation engine. Now it is time for it just to let the water flow.

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Leapfrogging or piggybacking?

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The economies of India and China are not as sophisticated as they appear

Get article background

THE back of Gopal Raj's book “Reach for the Stars” carries a black-and-white photograph of the nose cone of a sounding rocket, carried on the back of a bicycle. The book chronicles the unlikely beginnings of India's space programme, which launched its first rocket in 1963 from Thumba, a fishing village in the state of Kerala. Thumba was chosen as the launch site in preference to another location whose name translated as “White Elephant Island”.

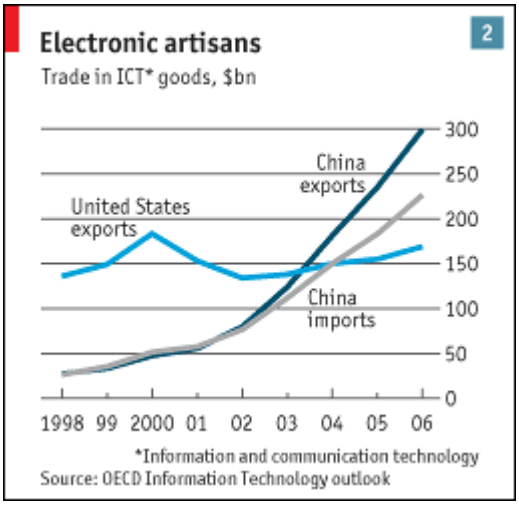
The programme's founder had little patience for scoffers. “One is often told that such and such a thing is too sophisticated” for a developing nation, he wrote. But “I have a dream, a fantasy maybe, that we can leapfrog our way to development.”

India's path since then has remained idiosyncratic. The skills demanded by its industries are those of a much richer country. This can be shown, roughly, by statistics; more sharply by anecdote. General Electric's technology centre in Bengalooru (formerly Bangalore), to pick one, is working on advanced propulsion systems for jet engines. India's Tata Consultancy Services (TCS) produces the software for Ferrari's Formula One cars. India's drugmakers offer 60,000 finished medicines; only three countries produce a bigger volume.

China's evolution also has its peculiarities. In 1964, recently estranged from its Soviet patron, it devoted a larger share of its GDP (1.7%) to R&D than it ever has since. But after the decade-long Cultural Revolution, this is how one study described the state of its industry on the eve of Deng Xiaoping's economic reforms in 1978: “vans and transformers that failed to keep out rainwater, sewing machines that leaked oil onto the fabric, power tillers rusting outside a factory that churned out fresh batches of unwanted inventory”.

Now, according to Dani Rodrik of Harvard University, China's exports are as sophisticated as those of a country three times richer. The goods it sells to America overlap to a surprising extent with the merchandise America buys from members of the OECD, a club of rich democracies, argues Peter Schott of Yale. By this measure, China's exports are more highly evolved than those of Brazil or Israel.

Particularly stunning is the growth of China's exports of information and communication technology (ICT), a category covering high-tech staples, such as telecoms equipment, computers, electronic components, and audio and video equipment. In 2004, the OECD reports, China passed America to become the world's biggest exporter of such goods (see chart 2).



Xu Zhijun, now head of marketing for Huawei, China's leading vendor of telecoms equipment, recalls the “distrust and doubt” he faced from 1998 to 2001. The customers he courted would not believe the products were Huawei's own: “We had to make 100 or maybe 1,000 times the efforts of an American or European company.” Kiran Mazumdar-Shaw, boss of Biocon, an Indian biopharmaceutical company, describes a similar progression: “In the early days, we were taken with a big pinch of salt in India. Now we are beginning to upset the big guys. We have nuisance value. That means we are successful.”

A sliver of riches

How big is the technological gap between America and China? Forty-five nanometres, about 1/2,000th of the width of a human hair. That, at least, is the answer you might reach if you visit Semiconductor Manufacturing International Corporation (SMIC), China's leading maker of silicon chips. The company was founded in 2000 by Richard Chang, a Taiwan-born American citizen, who spent 20 years working for Texas Instruments. Having built chip foundries or “fabs” in Taiwan, Italy, Japan and elsewhere, he decided to do the same in China.

Two measurements sum up the stature of a chipmaker: the diameter of the silicon wafers it turns out (bigger is better), and the scale at which it etches them (the smaller the better). Prior to 2000, China could make 6-inch (15cm) wafers, good enough for washing machines perhaps, but more than a decade behind the state of the art. SMIC now boasts two factories that can make 12-inch wafers, as big as any in the industry. Moreover, it can etch circuits at a scale of 90 nanometres; just 45 nanometres behind the industry's leaders.

SMIC's Shanghai fabs defy the stereotype of China's labour-intensive assembly lines. Its wares are not glued, stitched or soldered; they are coated, patterned, etched, doped, annealed, plated and polished. Wages account for no more than 5% of the cost of chipmaking: it is the capital not the labour that steals the show.

Cassettes of wafers move from one expensive piece of kit to the next on overhead tracks, picked and placed by robotic arms. First coated with a thin insulating film and a light-sensitive layer, the silicon is lined up under a “mask”, which leaves some bits exposed to a beam of ultraviolet light, other bits protected. The beam inscribes a pattern, like strap marks on a sunbather, which is then etched into the chip by a jet of plasma. The etch-marks expose the silicon beneath, which is then implanted with phosphorus or boran. These impurities, or “dopants”, transform silicon from its natural state as an insulator—a tidy latticework of atoms with no loose electrons—into its famous modern role as a semiconductor, permitting electrons to stop or go as the chip designer pleases.

Thanks to its prodigious output of electronic gear, China is now the biggest market for integrated circuits in the world. All the laptops and handsets, as well as the refrigerators and air conditioners, rolling off its production lines have chips inside. But China's foundries can satisfy only a tiny fraction of that demand. Their supply amounts to $3.1 billion, whereas China's demand is $62 billion. The supply shortfall could reach $112 billion by 2010.

This gap is one reason why Lee Branstetter of Carnegie Mellon University and Nicholas Lardy of the Peterson Institute for International Economics caution economists like Mr Rodrik not to overestimate China. China's firms have not managed “to leapfrog ahead and bend or even suspend the law of comparative advantage”. China is where electronic goods are made, not where much of the value is added.

As is so often the case, Apple's iPod is the best example. The 30-gigabyte video version was manufactured in China by Inventec, a Taiwanese company. It sold for about $224 wholesale in 2005. But where did that money go? Three economists—Greg Linden of the University of California, Berkeley, together with Jason Dedrick and Kenneth Kraemer of the University of California, Irvine—have peered into the white box to find out. Of the iPod's 424 parts, they reckon 300 cost one cent or less. The display module was worth about $20, but that was made in Japan by Toshiba-Matsushita. China did assemble all these bits and pieces and test them. But that accounted for just $3.70 of the iPod's value. The largest bite was claimed by Apple: about $80 in gross profit.

Perhaps only 15% of the value of China's electronic and IT exports is added in China, Messrs Branstetter and Lardy think. The rest is imported. Look again at China's trade figures for ICT: exports amounted to almost $300 billion in 2006, the highest in the world. But imports were $226 billion. China had a trade surplus in computers, video cameras, TVs and telephones; but it had a deficit of $92 billion in electronic components, including semiconductors, integrated circuits and audio and video parts.

China fetches low prices for its high technologies. The TV sets it sold in 2003 were worth about $73 a unit, according to Mr Rodrik's numbers. Malaysia's were worth twice that. The machinery America buys from other members of the OECD, according to Mr Schott, is four times as expensive as the stuff it buys from China.

China's high-tech firms are cheap; they are also not very Chinese. None of the top ten, by 2005 revenues, was native-born. Foreign firms owned one-fifth of the assets in the ICT sector in 2004, accounted for the lion's share of exports, provided 16% of the employment and claimed 20% of the

earnings. The wages they pay stay in China; as do whatever profits they reinvest. But their know-how stems from overseas. Some Chinese firms may soon make their mark in high-tech industries, Messrs Lardy and Branstetter argue. But the transition of the economy “from net importer of technology-intensive goods to net exporter is likely to take many decades.”

At your service

As the digital professionals of Bengalooru gather themselves for the punishing commute home from Electronics City, a group of exuberant young men parade noisily in the opposite direction. Streaked from head to shoulder with bright powder paint, they dance and holler ahead of a plastic icon of Ganesh, the elephant-headed god, whose birthday fell some days before. Ganesh appears in some unofficial versions of the Mahabharata, a Hindu epic, as a scribe, whose quill pen breaks in his haste to record the poem as a sage recites it. Not to be beaten, Ganesh snaps off one of his tusks, dips it in ink and does not miss a line.

Those virtues of determination and improvisation explain much of the success of India's celebrated IT firms, such as TCS, Wipro and Infosys. Each firm has its epic tales of deadlines made and obstacles overcome. Their exports of IT services (which do not include other back-office services) grew by 36% in the last fiscal year (which ended March 31st) to reach $18 billion, according to NASSCOM, the industry association. IT services employed about 560,000 people. Most of them seem to clog Bengalooru's Hosur Road each morning. The big three have landed several deals each worth over $300m (with companies such as Skandia, General Motors, United Biscuits and British Telecom) and margins are still healthy: Infosys, for example, reported an operating margin of 28% for the third quarter.

But some in the industry think India should be doing more with its intellectual resources. It should aspire to be the poet, not the scribe. India's exports of its own software—or licensing of its own intellectual property (IP)—amounted to about $450m in the year ending March 31st, a tiny fraction of its service exports. India, argues Craig Mundie of Microsoft, must go beyond renting out IQ and start creating IP.

AFP

The god of small bits

Services are labour-intensive; products require a bit of capital. It thus makes sense that India started out by specialising in the former. In the 1970s it had lots of well-trained engineers, bred for an industrial future that somehow failed to materialise. Add a roomful of computers and a company could get to work. Indeed, in the early days, even the computers were sometimes lacking. The so-called “body-shopping” model—despatching Indian engineers to work on the site of an American or British client—first established itself after IBM quit India in 1978. At that time, it was easier to export an Indian programmer to an American computer than it was to import the machine to India.

But it is precisely the labour-intensity of services that must ultimately limit the industry's growth. To double its revenues, a service company has more or less to double its headcount, says Kiran Karnik, head of NASSCOM. That is expensive: wages of IT professionals are growing by 15% a year. TCS, for example, now has over 100,000 employees, having added over 12,000 bodies in the most recent quarter. Will its headcount need to swell to 200,000 before its revenues reach the $9 billion-$10 billion mark?

Eventually, argues Ravi Venkatesan of Microsoft India, the country's firms will need to embody their brain-work in a patentable software product that, like an original poem, can be copied and sold, over and over again. What is stopping them?

One clue is given by a small advert posted in the second-class carriage of a Mumbai commuter train. It proclaims the virtues of Tradeannex, a four-in-one package created by a local software house, which offers small-business owners help with sales, purchases, inventory and taxation. But as well as selling the product, the advert also confesses the company's need for “distributors and channel partners”.

India Picture

Indian software firms often lack the wherewithal to push a product in the marketplace, and to survive the marketplace's whims. Services yield predictable returns: it is like “an annuities business,” says Mr Karnik. Products, on the other hand, require a heavy outlay up-front,

which may never be recouped if the package fails to find enough distributors, “channel partners” and customers. I-flex solutions, India's biggest software-product success, survived its early years by running a services business on the side. Its vice-chairman, R. Ravisankar, thinks other Indian firms lacked the “front-end spit and polish” that a successful brand requires.

To make a successful product, a company needs to be close to its customers. But Indians do not use much software—they bought only $1.6 billion-worth last fiscal year—and when they use it, they do not pay for it. Piracy rates are as high as 72%. One company, Tally, has succeeded by writing accounting programs for small businesses in India and other emerging markets. It touts “the power of simplicity” and traces its origins to the efforts of its founder and his son to computerise their own company's accounts in the 1980s. You can buy the silver edition of Tally's ninth release for 11,232 rupees ($290). This compares well with foreign packages that are “atrociously expensive” and “require two or three PhDs to run,” as Mr Karnik puts it.

Revenue per head

Meanwhile, the services firms themselves seem happy renting out IQ. Their aim is not just to add heads but to earn more revenue per head. To do this, they will have to earn money from the right side of their brains as well as the left. K. Ananth Krishnan, the chief technology officer for TCS, uses the analogy of an expensive hairdresser, who might examine you for 15 minutes, then snip two locks of hair. He charges you not for how much he cuts, but for what is left and how he has shaped it. Likewise, India's leading firms hope to move away from charging clients on the basis of inputs—“time and materials”—or even outputs—pieces of code. They want to charge customers on the basis of the gains their IT services can deliver, such as cutting their billing costs.

Mr Karnik thinks it little exaggeration to say that companies are either born as product companies or as service companies, not both. Scribes want to become better scribes. To become a poet, you probably need to be born as one.

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Transcending the genre

Nov 8th 2007
From The Economist print edition

Few Indian firms are creating drugs, rather than recreating them

Get article background

SMUGGLED away in the northern reaches of Mumbai is a 19,000-square-metre (200,000-square-foot) playground for chemists and biologists. The research centre, built by Nicholas Piramal (NPIL), India's fourth-biggest pharmaceutical firm, was conjured up in just 13 months for $20m. The walls are decorated with works of art, some tracing the Sanskrit chanted by yogis. Unlike them, however, the facility cannot transcend its surroundings. Its library carpet is being replaced because of monsoon flooding; outside, an awning, held aloft by bamboo scaffolding, helps to keep the rain at bay.

Inside, scientists enjoy all the latest toys. Arun Balakrishnan, vice-president for screening and biotechnology, takes particular delight in a screening robot, one of India's first. Its four arms pick up glass plates, each dotted with 96 human-cell samples. A battery of pipettes squirts the cells with agents, to see if they react. It is fast. The company has screened thousands of varieties of plant and microbe searching for agents that might help fight inflammation, cancer or diabetes.

The robot is from Tecan, a Swiss company. But the squirts are home-grown: extracts from India's rich variety of flora, which NPIL is keen to map. The facility has a fine collection of mushrooms, Dr Balakrishnan says; some grow like tall grasses; others resemble snowflakes. With 70m rupees ($1.8m) of government money, the company has joined forces with the National Institute of Oceanography in Goa and eight other research institutes to root out microbes for NPIL's laboratory to test. An earlier venture of this kind has already shown promise. The oceanographers discovered a molecule in India's deep southern seas which can fight strains of antibiotic-resistant bacteria, such as the infamous MRSA (Methicillin-Resistant Staphylococcus Aureus).

NPIL is impressive but not representative. It now spends 6% of its revenues on R&D, and at least seven drugs in its pipeline count as “new chemical entities”. No other Indian company can beat that; precious few even try.

Prior to 2005 India's patent laws did not protect newly discovered compounds, only the process of making them. This had predictable results on the evolution of the industry. Discovery went unrewarded, so it went largely undone. Instead firms turned out cheap, generic knock-offs of other people's drugs. The industry ranks fourth in the world by volume; but only 13th by value.

Thanks to India's WTO obligations, its law now respects patents on products invented after 1995. (Precisely how much respect it bestows is still being worked out in the courts—in August, for example, the Chennai High Court ruled that Novartis's drug Gleevec was not new enough to deserve protection.) But despite the new law, imitation still crowds out invention, if only because of the “cultural mindset” it has bequeathed, says Ms Mazumdar-Shaw of Biocon. Few companies are prepared to take the deep risks that new drug research entails.

Even NPIL plans to spin off its drug-discovery arm as a new company in which it will hold an 18% stake. Investment in this kind of work calls for a “longer time horizon” and “higher risk appetite”, the company notes. Invention is a fine thing, but best done on somebody else's balance sheet.

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Imitate or die

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From The Economist print edition

Invention is costly and frustrating work. India and China have better things to do

CHINA makes computers, but imports most of its chips. India makes drugs, but copies almost all of the compounds; it writes software, but rarely owns the result. The bolder claims made for all three industries thus have a similar, hollow ring. They have flourished, but mostly on the back of other countries' technology. “We are not at the stage of Intel Inside,” admits Arvind Atignal of Clinigene, a clinical-research firm, drawing his own analogy between desktops and drugs. “We are the keyboard, screens and peripherals.”

How much does this matter? Joseph Xie of SMIC, the Chinese chipmaker, spent seven years working inside Intel. Its strategy, he says, was simple: “get there first; make most of the money; let the second guy get the change.” That is certainly one way to run a technology firm. But competing in that race is expensive and exhausting. Few of Intel's rivals still try to keep up with it, nanometre by nanometre.

Countries of China's and India's heft and ambition cherish the idea of pushing back the limits of technology. But that push is risky, costly, frustrating work. A country shouldn't do it unless it has to. Although China and India could devote their considerable intellectual resources to solving the problems faced by economies on the technological frontier, why cross that bridge until you reach it? Seen in this light, India's generic drugmakers are models not laggards. They invest in just enough know-how to exploit the rest of the world's discoveries. Thanks to them, Indians enjoy some of the world's cheapest medicines.

Under the WTO's Trade-Related Intellectual Property Rights agreement (TRIPS), India has ceded the right to free-ride on foreign advances (see article). It now grants 20 years of patent protection to inventions hatched after 1995. In return, it hopes tighter laws will inspire Indians to new exploits in innovation, and reassure foreigners wary of inventing or making original products in the country.

The tougher laws may yet succeed. A recent study by Bruce Abramson of the World Bank expresses high hopes. A “patent chic” is already detectable in the country, he reports. He has even heard of Indian farmers calling lawyers in the hope of patenting their prize vegetables.

But, as yet, the new regime has not proved its worth. Over 17,000 patent applications were filed in India in 2004-05, almost 40% more than the year before. But only 3,500 were by Indians. Of the 49 most prolific filers in the past decade, 44 are either foreign companies or subsidiaries. Of the five Indian firms, all are either government-sponsored institutes or generic-drug companies, which did fine before TRIPS.

The new regime will be costly to run, if India takes it seriously. But the larger cost lies in the opportunities for unabashed imitation that India has now forgone. These lost opportunities might be quite big. Had Indian firms been prevented from copying fluoroquinolones, for example, the Indian public would have been worse off by the equivalent of $255m a year, reckons a study of the antibiotics market by Shubham Chaudhuri of the World Bank, Pinelopi Goldberg of Yale and Panle Jia of the Massachusetts Institute of Technology.

Drawing in the tail

India could resolve not to invent another thing, and still prosper mightily. It does not even have to catch up with the world; as noted earlier, it has much to gain merely by catching up with itself. A report by the World Bank (“Unleashing India's Innovation”) cast its eye over thousands of Indian enterprises—makers of drugs, foods, car parts and textiles, as well as metal-bashers and garment-weavers. In each industry, it found a thick clump of unproductive companies operating far behind the industry's vanguard. In garment-making, for example, the bank found a few highly productive companies, in which the value-added per worker was over 600,000 rupees in 2004. But in over 60% of the industry, that figure was less than 100,000 rupees. Even ignoring the very best firms, the bank still found a leading group in each

industry that was about five times as productive as the average firm. It calculates that India's national output could be 4.8 times bigger than it is if only enterprises were “to absorb and use the knowledge that already exists in the economy.”

Learning new tricks is not the only way to thrive. China may have stopped inventing things (clocks, compasses, gunpowder and so on) after the 15th century. But it did not stop growing. The empire found fresh farmland to till, using the same old techniques, and new markets to exploit, selling the same old goods. Likewise today's China still enjoys a lot of scope for “extensive” growth—doing more with more—as well as “intensive” growth—doing more with less. “China is very much a top-line country,” says Max von Zedtwitz of Tsinghua University in Beijing. Although outlays on R&D are increasing, many people still appreciate size over sophistication. In the scramble to grow, a company that sets aside precious resources for research can be at a disadvantage. By the time its investment pays off, the firm's rivals might be twice as big. “They will acquire you,” says Mr von Zedtwitz.

Technological pursuits have opportunity costs. Other, perhaps more lucrative, uses can always be found for the resources so expended. That is why no firm in China is betting billions on a risky search for the next blockbuster drug. “If I had even a hundredth of that kind of money,” says Hai Mi of WuXi PharmaTech, a pharmaceutical firm in Shanghai, “I'd rather open a restaurant.”

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Consumer champion

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China's leaders want their own technology titans. But China's true national champion is its big market

BACKWARDNESS has its advantages. The latecomer to industrialisation can learn from the example of countries that went before it. China, unsurprisingly, gleans what it can from the models to its east: Japan and South Korea. On occasion, its policymakers have revealed a longing for their own national champions, imperious industrial conglomerates akin to the *keiretsu* of Japan and the *chaebol* of South Korea. In 1998 Wu Bangguo, a deputy prime minister, argued that China's international economic standing "will be to a large extent determined by the position of our nation's large industrial groups".

Panos

Peddling bikes

But China's industrial evolution has defied these aspirations. The obvious candidates as national champions were the big state-owned enterprises. But most of China's manufacturing progress has taken place around and between these moribund hulks, not through them. China's industrial economy teems with small, independent enterprises, not big, integrated flagships. Only four of China's ICT companies (three of whose headquarters are in Hong Kong) rank in the world's top 250 as measured by 2005 revenues.

This poses an insuperable problem for any Chinese policymaker hoping to emulate the industrial stewardship of Japan's or South Korea's ministries. In South Korea in the 1970s, Dwight Perkins of Harvard University has pointed out, fewer than 200 firms accounted for more than half of the country's manufacturing. By coaxing and cajoling these firms, the state could hope to steer the nation's economy. In China, the state would have to marshal hundreds of thousands of firms. China's manufacturing economy has no commanding heights. Its future will be decided elsewhere.

Waifs and strays

In every cranny of the SEG electronics market in Shenzhen, customers can find the electronic equivalent of a butcher's shop, displaying the guts of a computer, raw and glistening. Capacitors, circuit boards, switches, nuts, bolts and other offal are laid out on countertops. Spilling over the sides is every variety of cable, as tangled as the noodles the shopkeepers wolf down at lunchtime. The market lives on the first nine storeys of a gleaming octagonal tower, one of Shenzhen's many self-conscious monuments to modernity. But those who cannot afford a counter in the tower open shop on the pavement outside. There, a man sells a circuit board from a cardboard box, balanced on the saddle of his one-speed bike.

As the journalist James Fallows has noted, the market showcases the peculiar character of Chinese manufacturing. Many of the industries China now occupies have become increasingly “modular”. The bits and bobs on offer (displays, cables, cards, chips) do not belong to one product or another. They can plug into any number of gizmos, some of which may not yet exist. The resulting combination hangs together because any bit can fit with a bob: the rules governing how they mesh become industry-wide standards.

Some believe this modularity sharply distinguishes Chinese manufacturing from that of its Japanese and South Korean forerunners—though they disagree about whether China's climb up the technological ladder will be harder or easier as a result. In Japan and South Korea, the leading companies took an intimate interest in every stage of a product's birth: conceiving it, procuring the materials, fashioning the parts, assembling them and marketing the result. This chain of production was contained within a family of firms, led by a national champion.

These corporate families prospered by tuning and improving things, up and down the chain of production. The lead firms would pass on know-how to, and demand higher standards from, their contractors and sub-contractors. For Toyota, the factory floor was the laboratory.

Some fear that China's small, modular manufacturers cannot evolve in this way. Since the parts they provide can be of use in many products, no lead firm has reason to nurture them or help them improve. Chinese firms are not part of a corporate family. But without close collaboration with more advanced sponsors, how will these young waifs and strays learn?

One example is motorbikes. Honda wants its suppliers to get better, because their parts fit only Honda's bikes. Chinese bikemakers, on the other hand, use interchangeable parts that might also be used by dozens of rivals. Similarly, if Motorola were to help BYD, a Chinese company, make better lithium ion batteries, Motorola's competitors would benefit as well.

But Motorola (as Wei Xie of Tsinghua University and Steven White of INSEAD point out) did help BYD make better batteries, sending engineers to its site to show them how. (And sure enough, the battery-maker does now supply Motorola's rivals.) Other evidence points in the same direction. The country may not have a Toyota or a Hyundai of its own, but its car-parts industry has nonetheless picked up a few things under foreign tutelage. According to work by John Sutton of the London School of Economics, more than half of Chinese suppliers to multinationals now meet international standards, which permit no more than 100 defective parts per million. Even the suppliers' suppliers have shown dramatic improvements in recent years. In 2006, 80% of these second-tier firms could meet the international standard, compared with just 28% three years before.

Perhaps China's industries are not that “modular” after all. The concept describes computer-making better than carmaking, and even within the computer industry, it characterises desktops better than laptops. Squeezing lots of components into a notebook PC is not straightforward, Messrs Dedrick and Kraemer point out. It requires collaboration between designers, parts-makers and assemblers, so that the final package is thin, light and “does not burst into flames”. For this reason, the stages of laptop production tend to follow each other, with a lag, around the globe. Once assembly moved to Taiwan in the 1980s and 1990s, it pulled many other tasks (process engineering, pilot production, testing, prototyping) along after it. They foresee the same thing now happening in China.

China's quick evolution is also due to the other big difference between this latecomer and South Korea or Japan: the beguiling power of its home market. Foreigners are infatuated with it as a place to sell things as well as make things, and China's government has taken full advantage. In some cases, it required multinationals to enter into joint ventures with local firms. In others, it required foreigners to buy from them. Multinational carmakers wanting to set up shop in China in the 1990s had to source 70% of their parts locally within three years. That gave them every incentive to tutor their Chinese suppliers.

China had to abandon such tactics to join the World Trade Organisation (WTO) in 2001. But by now, foreign carmakers are mostly happy to buy local parts, because the suppliers are up to scratch. (Foreign toymakers may no longer agree.) Indeed, in many sectors foreigners have bought into Chinese partners, as well as bought from them. In a 2001 survey in five Chinese cities, the World Bank found that 90% of companies that dealt with foreign firms were also partly owned by them. China's modular manufacturers may be part of the family after all.

Purchasing parity

In his gloomier moments, Duncan Clark of BDA, a telecoms-advisory firm in Beijing, thinks that China's biggest contribution to technology will be new sets of perplexing initials. Not content with DVD, the government introduced its own format for video discs, EVD. Unhappy with MPEG-4, it created an alternative standard for compressing audio and video files called AVS. Dissatisfied with the “Wi-Fi” encryption method that everyone else used, it tried to push an alternative called WAPI, an acronym that enfolds another acronym: Wireless Local Area Network (WLAN) Authentication and Privacy Infrastructure.

China's latest gift to the world is the longest string of intitials of all: TD-SCDMA (Time Division-Synchronous Code Division Multiple Access, if you must). Developed by China's Datang and Germany's Siemens, this allows third-generation (3G) mobile phones to send and receive bigger gobbets of information, including video and webpages. Two alternatives are already widely used worldwide. Why abuse the alphabet further?

Having enjoyed little success fostering national champions, China's government is now keen to push national standards. Such standards take hold in many high-tech industries, ensuring that one device is compatible with another. But they do not emerge without a fight. Countries quarrel over whether their neighbour should adopt their standard, or they should adopt their neighbour's. If the neighbour has many more users, its standard will probably prevail. That is the lot accepted by most small countries. But China is not small. Given the size of its home market, it can realistically aspire to carry its own standard.

In so doing, it hopes to escape what it thinks of as a “technology trap”, argue Richard Suttmeier and Xiangkui Yao of the University of Oregon and Alex Zixiang Tan of Syracuse University. Its pragmatic manufacturers often favour foreign components and technologies, which leaves home-grown innovation bereft of patronage, and burdens the economy with hefty licence fees and royalties: Chinese firms paid $465m to American intellectual-property owners last year, for example. Rather than pay such fees, some firms bootleg the technology, undermining intellectual-property rights, which further saps China's innovative energies.

China's 15-year programme for science and technology, unveiled in 2006, called for “indigenous” innovation and aimed to cut China's dependence on foreign technology from 60% to 30% (as measured by the ratio of its technology imports to its domestic R&D spending plus net technology exports). By pushing for its own standards, based on home-grown research, it hopes to cut its royalty payments and wean its companies off foreign innovation.

China's big market is, to be sure, a great boon to its technological ambitions. But not in quite the way the government thinks. The clout it confers in standard-setting is of secondary importance. The benefits of a large pool of curious customers run far deeper than that.

Much technological innovation takes place in the back-and-forth between maker and user. This is an old insight—Adam Smith praised the workmen who invented “easier and readier” tools for their own use. Today, the idea is most closely associated with Eric von Hippel of the Massachusetts Institute of Technology, who likens innovation to a democratic forum, where users are sovereign.

Adventures in consumption

Amar Bhidé, an economist at Columbia University, goes so far as to say that an economy's technological standing rests as much on its consumers as its producers. “Venturesome and resourceful customers” provide a great spur to innovators, he says, offering them quick feedback on their ideas, and a full deck of behaviours, habits and trends to learn from.

China's consumers are as venturesome as any. The country is still deeply curious and optimistic about what technology can do, says Tsinghua University's Mr von Zedtwitz. He thinks both qualities have faded in Europe. Likewise, at Microsoft Research Asia in Beijing, Jian Wang believes the Chinese consumer is a gift to free-thinking researchers: “People here just love new technology,” he says. “They love to try new things.”

Microsoft is exploring what it calls “deployment-driven research”. Rather than perfecting a product behind closed doors, then releasing it shrink-wrapped to the world, it thinks research work should zig and zag between author and audience. They do not call it R&D. But this is already what many Chinese firms do in practice. They are quick to test their ideas, says Mr von Zedtwitz, boldly putting their products into customers' hands, while German perfectionists would “still be fiddling around with the prototype”. In China, he says, “you can afford to waste some customers with an imperfect product, because there are

always another 100m out there to whom you can sell version 2.0."

China's push for a 3G standard has deprived its companies of the benefits of this venturesome consumption. Despite promising to finish a 3G network by the time of the Beijing Olympics next year, the government has yet to issue licences for 3G telephony. It does not want to uncork the market until its standard is ready, whenever that may be. As a result, China makes many of the world's 3G smart-phones, but almost none of the world's 3G phone-calls. Apart from a few TD-SCDMA pilots in big cities, China has no 3G consumers to learn from. The government has in effect kept the doors of its biggest laboratory shut.

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Old parts, but a new whole

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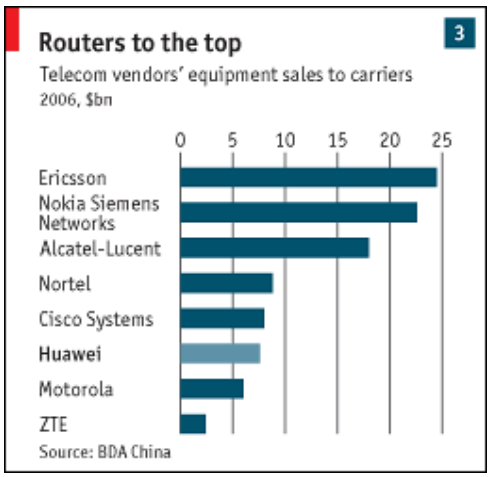
A new way of mixing existing technologies is also innovation



CHINESE expectations of great technological feats from their country are shared by alarmists in America. China's combination of raw brainpower and raw ambition will threaten America's technological leadership, they argue. For them, China's prowess is best demonstrated by its state-sponsored "mega-projects", such as its supercomputers and pebble-bed nuclear reactors. India, for its part, has a peta-project: it hopes to build its own "petaflop" computer, which could handle 10^{15} floating-point operations per second, as fast as any in the world.

Sceptics, on the other hand, dwell on China's shortage of national champions and its dependence on foreign technology. As an aspiring technological power, they say, China is all broth and no noodle. Both sides squabble over Huawei, China's leading maker of telecoms equipment. In 2006 it became the sixth-biggest vendor in the world (see chart), and won a third of new contracts for third-generation (3G) telephony. The company devotes 10% of its revenues (which were $8.5 billion in 2006), and almost half of its manpower, to R&D. Its testing facility in Shenzhen looks a bit like the White House. Only bigger. Its elusive chairman, Ren Zhengfei, who still bestrides the company he founded almost 20 years ago, is a veteran of the People's Liberation Army, and his employees, who do boot-camp calisthenics in the morning, subscribe to a "wolf spirit" of winning deals and working like a dog. This, surely, is a company befitting a tech-superpower.

But if the company is a bit amped-up, it is only because of the odds it feels it is fighting. It has a bracingly humble view of its own technological attainments. It is, for example, proud of its work in "ultra-long-haul" transmission, carrying calls up to 4,600km over fibre-optic cables, without having to regenerate the signal along the way. But as it freely admits, it had to buy the most important technology from an outside company.

Huawei has not invented many original products. But it has made some original tweaks. It split its mobile-phone base-stations into two, lighter parts, which could be installed separately and more cheaply. But an in-house magazine dismisses the modification as "merely an improvement in engineering processes".

Such examples explain why Dieter Ernst of the East-West Centre in Honolulu and Barry Naughton of the University of California, San Diego, disagree with both alarmists and sceptics about China's potential. Both schools of thought, they say, look in the wrong place for signs of technological creativity. The state may aspire to match America's supercomputers. But such breakthroughs, which push the limits of scientific and engineering knowledge, are beyond Chinese firms. Their future lies instead in "trolling" through existing technologies and components, and combining them in new ways.

Haier, China's biggest maker of white goods, provides one example. As Donald Sull of London Business School tells it, Haier's repairmen found that rural customers used their washing machines to clean vegetables, as well as clothes. Its response was to widen the drainpipes that might clog with peels. India's pharmaceutical firms do not invent many drugs, but they do create new ways to deliver them: patches rather than injections, or pills taken once a day rather than twice.

Rebecca Henderson of MIT and Kim Clark of Harvard have dubbed creativity of this kind "architectural innovation". As they define the term, it "changes the way in which the components of a product are linked together, while leaving the core design concepts (and thus the basic knowledge underlying the components) untouched." Since they do not draw on new science, such innovations do not require the vast outlays on research that few Chinese or Indian firms can afford. Inspiration may spring not from the white-coated boffins but from customers or repairmen, their hands full of vegetable peels.

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E-hinterland

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Where the venturesome find their consumers

OUTSIDE Shaoxing, a textiles town in China's Zhejiang province, the houses are growing taller, even as the farms shrink in significance. The residential buildings are five and six storeys high; the agricultural plots a modest acre or two. Most follow the same eccentric design: their window-frames painted in strong shades of lilac; their gabled roofs topped by silver finials, shaped like miniature versions of Shanghai's Oriental Pearl Tower.

Eyevine

Jack be nimble

Cheap and cheerful is also the operating principle of Haolaiwu Textiles, which sells bright curtains to clients in Germany, Italy and elsewhere in Europe. On the ground floor of the factory, men feed rolls of synthetic fabric through a printing machine, under a pair of strip lights suspended low overhead. Dye fumes thicken the air, as floral designs are heat-pressed into the fabric. Upstairs about 30 young staff work their sewing machines, hemming as the radio hums.

Such modest technologies—machines that sew and print—are still the workhorses of China's industrial revolution, just as they once were for South Korea and Hong Kong. But if its production technology is traditional, Haolaiwu's marketing technology is modish. In 2005 it joined Alibaba.com, an e-business site that matches buyers and suppliers over the web. Within China over 21m businesses use the site to sell or procure parts and materials. Foreign buyers use the English-language version to fish for goods (everything from lawnmowers to folding dog-cages) or goodsmakers in China's teeming shoals. Haolaiwu, one of more than 3.6m registered users, found its first foreign buyer within three months of joining. Since then it has grown from about 20 staff to over 80.

Jack Mao

The Alibaba group's founder and leader is the sharp-featured Jack Ma, a man reporters cannot resist likening to a pixie or an elf. His grotto is on the sixth floor of an office building in the lakeside city of Hangzhou. In celebration of the company's eighth birthday (and Mr Ma's 43rd), the company's foyer is festooned with pink roses, a heart-shaped poster and an invitation to “share love”. Inside, the company monitors how far this sharing has progressed on a bank of screens that chart the ebb and flow of site traffic and the steady spread of e-business across China's map.

“We are lucky the business was not started in Beijing or Shanghai,” says David Wei, head of Alibaba.com. If it had grown up in those cities, he thinks, it might have evolved to serve the sophisticated multinationals nearby. Instead, it has aimed at the kind of small businesses, like Haolaiwu, that cluster

around Hangzhou.

Alibaba is not the only Chinese technology firm to find its customers in unfancied places. Huawei became China's leading provider of telecoms equipment pursuing a similar strategy. In China's big cities—which might have been its natural market—it found itself harried by multinational companies such as Ericsson. Its chairman therefore followed Mao's advice for fighting a guerrilla war against well-entrenched incumbents: first occupy the countryside, before encircling the cities. In Heilongjiang province, in the far north-east, it employed over 200 people in the early 1990s, living and working in the towns and small cities where their equipment was sold. The multinationals, by contrast, spared only a handful of people, selling to the province's towns from afar.

Huawei also ventured to inhospitable backwaters outside China. It was in Algeria during its 2003 earthquake and Iraq during its war. In 2006 Huawei's overseas contracts were worth twice as much as its domestic ones. Sales are growing quickly in Africa and the Middle East. In Latin America the company's contract sales more than doubled last year.

But occupying the countryside was only the first part of Mao's strategy. The second was to encircle the cities. Huawei is now making respectable incursions into prosperous markets. It was awarded a bit of British Telecom's recent contract to build its 21st-century network. It also makes the 3G phones that Vodafone sells in southern Europe.

Capitalist re-education

Because Alibaba's members are small enterprises and individuals, some with little experience of the internet, they can need a lot of handholding. “Sometimes people do not even know how to upload pictures,” Mr Wei says. One company floundered because it answered requests for quotations only once every three months. The owner, it turned out, had to wait for his son to return from university at the end of each term to translate for him.

Alibaba is eager to educate its customers so they can profit from the technology it wants to sell them. It holds sessions of “Alicollege”, teaching the ways of e-business. And for the past two years it has cemented its online following with a big offline gathering, called Alifest. Thousands of small-businessmen travel to Hangzhou to unlock the twin mysteries of computing and commerce in bars and teashops.

OnAsia

The People's Online Army

Alifest's guests assemble at the Zhejiang Great Hall of the People, where some successful members are invited onstage to share their experiences, as if on a TV chat-show. One woman, a gold ribbon in her hair, gave up her job as a police officer to sell lingerie on taobao.com, Alibaba's consumer-auction site. Outside the hall, a booth sells a cartoon-booklet in which a young man explains to various technophobes that the “net” is not for fishing and the “web” has nothing to do with spiders.

The same province provided Huawei with one of its first customers—a small city neglected by the multinational vendors. Like Alibaba, the company helps its less experienced customers with tasks such as formulating their business plans. At their request, it also moved into making handsets, a sideline for which it is now well known, if only because phones are easier to understand than some of its other offerings, such as Multi-Reach Dense Wavelength Division Multiplexing Solutions.

Even as Alibaba tutors its customers, it must educate itself about their habits and predilections. Of the 25m registered users of its Chinese and international site, only about 300,000 pay anything for the privilege. They are charged an annual fee for a more prominent listing, rather than paying per transaction or per click. This is because a transaction fee, Alibaba thinks, would simply encourage companies to do their deals off-site. And if it asked a supplier to pay for every click on its webpage, the company's rivals might click maliciously to raise its marketing costs.

Last month Alibaba priced a public offering of shares in its two business-to-business sites on the Hong Kong Stock Exchange. Investors seemed confident that it can turn its loyal members into lucrative

customers. But the firm's profits have yet to match its profile. The benefits of technology have a perfidious habit of flowing to the users not the inventors. Outside the Haolaiwu factory wall in Shaoxing, another four-storey home is being built. Farmers live there, the factory's manager says, but “they don't do farming anymore; only business. They're all millionaires.”

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For all the PCs in China

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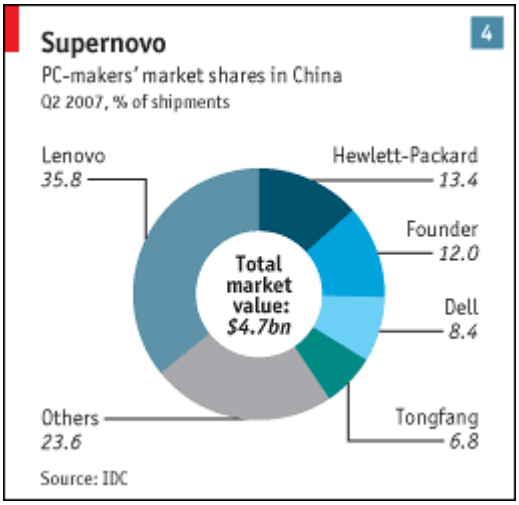
Old-school retailing in a high-tech business



THE PC business is a conservative industry. Intel strives to make its microprocessors faster; Microsoft to make its Windows operating system fatter. Subtract those two and what remains is an industry satisfied with modest, incremental improvements—lighter weights, longer battery lives, novel keyboard layouts—within the terms set by the "Wintel" pairing. The industry's biggest innovation of the past 25 years was not technological but logistical. Dell rose to dominance in the American market by doing away with costly retailers and fat inventories, and selling made-to-order PCs directly to the customer.

In China and India even that innovation has been repealed. Beijing's Ding Hao mall resounds with the sing-song of competing salespeople, pushing the brand they front: "So-ny", they chirrup, or "Hui Pu"—for "HP" or Hewlett-Packard. Make eye contact and you are given a smile, perhaps even a clap. Come close and a laptop PC is thrust under your nose.

This is full-contact, close-quarters retailing. In China people like to look, touch and chew things over before they buy. Even Dell has set out its stall in the Ding Hao mall, although its booth is not as lushly appointed as some of its rivals'.

Lenovo, despite having three syllables to sing, has over 35% of the Chinese market, more than 20 percentage points ahead of its closest competitor, HP. In India, the positions are reversed. HP claimed over 22% of the market in the second quarter, according to IDC, a market-research firm. Lenovo was third with 10.3%.

Lenovo sprang from a company called Legend. Its name combines its old moniker with the Latin *novo*, for new. Its founder, Liu Chuanzhi, is a product of China's Institute of Computing Technology, and the company is still partly owned by the Chinese Academy of Sciences. But Lenovo owes its success more to retailing acumen than technological virtuosity. Mr Liu left his ill-paid position at the Institute because he wanted to do something more practical, and his company started out by distributing computers not making them. Indeed, Legend was HP's first distribution partner in China, and, Mr Liu has said, the American company was "our earliest and best teacher". Now the pupil has grown into HP's strongest rival in Asia.

Unlike the IBM business it bought in 2004, Lenovo does not rely on building a relationship with a big corporation, then selling it a bulk order of customised PCs. Instead, it sets a keen price, and then relies on a vast network of resellers and retailers to close the deal with customers.

Lenovo has resellers in more than 1,000 cities in China. HP cannot match this reach, nor will it kill itself trying. In China "a lot of companies say they want to be number one and try very hard at high cost," says Adrian Koch of HP Asia-Pacific. His company now sells computers in about 420 cities, and hopes to reach 500 in two years. In the biggest cities it hopes to appeal to repeat buyers who "no longer just go for the best price in town", says Robin Seow of HP China. "If you fight tooth and nail on cost, it will be a tough and bloody price war," he says.

In HP's experience, Asian buyers prize form as well as function. "The classic portable computer was a big, fat, bulky unit driven by US consumer needs," says Mr Koch. "It was thrown into the back of the car, so it did not matter how heavy it was." In Asia, where people travel by bus and train, something less cumbersome is preferred. Mr Seow, who is from Singapore, carries a slim laptop that slips comfortably into his Burberry Black Label man-bag. His colleague from California, by contrast, humps his laptop around in a backpack.

Outside the big cities the PC-makers must win over first-time buyers, who might be choosing between a computer, a new TV or a refrigerator. In Hong Kong or Singapore computer-makers may be selling to enthusiasts, keen to know what is under the bonnet. But in other parts of Asia people are still wary of computing. In India, for example, Lenovo emphasises its computers' “one-key” recovery button, which rescues the system after a crash.

HP also has partnerships with telephone companies in China to sell a box and an internet connection bundled together for a monthly fee. Lenovo has experimented with another twist. Instead of yoking customers to monthly payments, it allows them to pay for half of the computer by buying minutes of internet access as and when they can afford them. As Dell showed, PC-makers' greatest innovations may be not in what they sell, but in how.

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Does not compute

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From The Economist print edition

Chatty Indians have embraced the mobile phone, but many still shrug at the PC

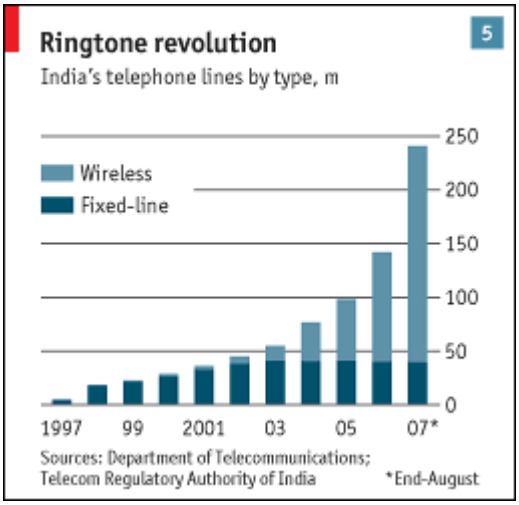
"PROLIXITY is not alien to us in India," admits Amartya Sen in his essay "The Argumentative Indian". "We do like to speak." He supports his contention with quotations from India's classical texts, but it is also borne out by India's phone habits.

The average owner of a mobile handset spends 471 minutes (almost eight hours) on the phone each month, and sends 39 text messages. Those numbers do not capture other, more ingenious, uses for the device. For example, autorickshaw drivers will tell passengers to "hit me with a missed" (ie, call my mobile and hang up before I answer) when they want to be picked up for the journey home. Such tactics dent the phone companies' revenues. They now earn under 300 rupees ($7.50) a month on average per subscriber.

Not so long ago most Indians had to confine their arguments to those within earshot. By the early 1990s the Department of Telecommunications (DOT) and the state's two operators had installed only 8m lines. Some 2.5m people were on the waiting list, where some had languished for seven years. Argumentative Indians raised the cry of "DOT *hatao, desh bachao*!" ("Curb the DOT, save the nation!"). By the end of the 1990s, the sector was open to private entrants, sharing their revenues with the government, and regulated but not run by the unloved DOT.

What ensued was a "voice revolution". By March 2002, India had over 38m land-lines and 6.7m mobile-phone subscribers. By August of this year, mobile subscriptions had topped 200m (see chart 5). It is the fastest-growing market in the world. This miraculous expansion is the result of savage competition. Rival operators line the streets with posters as if fighting an election. In Chennai, the blue of Reliance Mobile (34.8m subscribers nationwide) competes with the red of Vodafone (34.1m), which has taken over the Indian operator Hutch. Numerous other companies vie for the remaining vote.

Good things have followed. The spread of mobile phones among Keralan fishermen from 1997 allowed them to call ahead from their boats to find the best price for their catch. Harvard's Robert Jensen has shown that the tighter match between demand and supply raised their profits by 133 rupees a day—and reduced the price of sardines by 4%. Leonard Waverman of the London Business School reckons mobile phones can have a discernible effect on national output. If India were typical of the developing countries he has studied, the spread of mobiles in the year to March might add about half a percentage point to India's rate of growth



India's adventurous phone-owners have not embraced the computer or the internet in the same spirit. The country adds more mobile-phone users in a month (8.3m in August) than it adds PCs in a year (about 6m). Lehman Brothers calculates that this year India will have 24 PCs per 1,000 people. China has three times that figure. Moreover, despite the pride India takes in its IT firms, it is also a surprisingly "offline" country. By August 2007 it had only 2.6m broadband connections, generously defined. China has over 50m.

In Hyderabad and suburban Sangareddi, Jonathan Donner of Microsoft Research studied more than 300 small informal businesses—from cobblers and locksmiths up to rice-dealers and photocopyists—employing five or fewer people. In his sample, only 13% had a computer (only 23% had ever tried one) and 39% lacked even a phone. Three-quarters of those without a phone plan to get one. But ask people if they plan to get a PC, he says, and they will shrug.

It is better to talk

Are they right to? The spread of PCs is not always a sign of economic vitality. A recent World Bank survey of almost 2,000 Indian retailers found that about 19% used computers. But one of their big reasons for doing so was to skirt intrusive labour regulation: only these laws made a computer more attractive than a clerk.

One of the enterprises Mr Donner visited collects scrap paper for recycling. It does not have heavy information-processing needs, Mr Donner points out; a logbook does the job. But many firms that can eschew computers do have communication needs. Without a phone they “cannot communicate faster than they can walk”.

Low use of the PC is not necessarily under-use: many Indians may be right to shrug, relying instead on store-clerks and logbooks. But the slow spread of computing may also reflect timorous consumers and sleepy businesses. The diffusion of technology often counts for more than its invention. But perhaps there are inventive ways to aid diffusion.

What computers may become

Rajesh Jain is a true believer in India's wireless revolution. A Mumbai entrepreneur with fingers in a string of technology start-ups, he cannot contain his enthusiasm for the Apple iPhone he bought in America and “hacked” so that it works in India. But Mr Jain does not believe even the smartest of phones can entirely replace the computer. He envisages a future in which city-folk will have two screens in their life. A smart-phone will provide one of them. And for millions of people, he hopes, his netPC will provide the other.

AFP

An early adopter in his legacy system

The netPC is the latest incarnation of a notion floated by Oracle's Larry Ellison over ten years ago. The PC as we know it is a self-reliant machine, heaving with processing power, laden with software and stuffed with data. But in the age of broadband, it is unnecessary to house so much computing power in a box on your desk. Better to store the bulk of it on a central server, to which users can connect via the internet. That would leave the user with an unencumbered computer called a “thin client”. In the rich countries, personal computing spread before electronic communication. But the result is as inefficient as India's woeful electricity system: everyone has his own generator, rather than being plugged in to a national grid.

In 2003 Mr Jain teamed up with Professor Ashok Jhunjhunwala, of the Indian Institute of Technology in Chennai (formerly Madras), to build the netPC. With a third investor, they founded a company, Novatium, that launched the device in Delhi in September. Users buy the box for 1,999 rupees. (A monitor is 3,000 extra.) It runs on a modest chip-set transplanted from a mobile phone. Users switch it on like a TV, and pay 399 rupees a month to gain access to software maintained on a central server.

Sceptics argue that the netPC will live or die by the availability of reliable and speedy internet connections. Mr Jain argues the opposite. It is the netPC that will revive the flagging demand for wire-line connections, he says. His device has the backing of MTNL, one of India's two big state-owned operators.

They have seen fixed-telephone connections fall, from a peak of 41.4m in 2004-05 to 40m now.

Mr Jain has tried to learn from the success of mobile telephony. His device is cheap and simple. Indeed, when it was piloted among Chennai families, its simplicity was a bigger draw than its economy. PC veterans can find it hard to appreciate how complicated and intimidating computers have become, he says, accosting naifs with spyware, pop-ups, requests to update this or register that. Prolixity is not alien to India; simplicity should not be either.

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Splendid miscegenation

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Something borrowed, something true

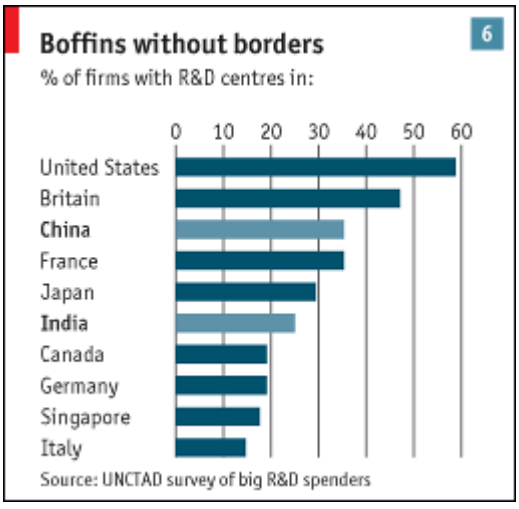
"IF YOU can clean it, you can scribble on it," says Sridhar Vedantham of Microsoft Research India. Many of the dividing walls in the group's handsome Bengalooru office are made of glass, and much of the glass is decorated with doodles, questions, deductions and equations. One of five Microsoft research laboratories around the world, it employs over 40 researchers, from cryptologists to anthropologists, working on a range of problems, from code-breaking to rural computing. The group has "both the obligation and the licence" to think beyond Microsoft's bottom line, says its founder P. Anandan, an expert on computer visuals. As the writing on the walls suggests, the researchers enjoy a lot of freedom to think and express themselves, to burst with the kind of ideas that are best had standing up.

Imaginechina

Winsome consumption

India is now host to R&D centres for over 100 multinational firms, according to the OECD. The country ranked as the sixth most popular location in a recent survey of some of the biggest R&D spenders in the corporate world (see chart 6). China does even better: it has over 750 centres. Some, like Microsoft's lab in Beijing, pursue blue-skies "R"; most busy themselves with practical "D". Quite a few were set up to win government favour: "PR&D", as it is called.

Other foreign companies outsource bits of R&D to "contract research" outfits. In Bengalooru Clinigene carries out clinical trials on India's plentiful supply of patients. In Shanghai WuXi PharmaTech employs 2,600 people helping the big pharmaceutical companies, such as AstraZeneca, to find new compounds and develop new drugs. Far from scribbling on the windows, its scientists are forbidden even to note down the formula for a chemical compound when they enter the firm's central facilities. They must write in code, so that the firm's other scientists, working for other clients, cannot understand their jottings.



In the company's laboratories, rotary evaporators turn, separating substances from solvents. Thanks to China and India, innovation has undergone a similar process of division and separation. The chemists, clinics and engineers the two countries can offer have relieved multinational companies of some of the labours of bringing a new product into the world.

In his lab, Mr Anandan tries to turn India's bright sparks into original thinkers. A true researcher, he says, is someone who does not want to work for someone else—though he might not mind being paid by someone else. Mr Anandan takes particular pleasure in watching his charges lose their exaggerated reverence for the leading scholars in their field. From a distance, it is easy to imagine such luminaries are “seven-foot giants”, he says, and that you will be “burnt by their aura”. But he long since discovered they were shorter than he was—and often just as confused.

Richard Freeman of Harvard University worries that America's technological pretensions will also be cut down to size by the growth of Asia's scientific workforce, and the stagnation of America's. In 1970, he notes, America granted over half of the world's PhDs in science and engineering. By 2010, that share will fall to just 15%. Moreover, almost a third of science and engineering students in American graduate schools in 2005 were foreign. Such numbers prompt Mr Freeman to ask: are we helping them to catch up, or are they helping us to stay ahead?

The fears of the leaders and the latecomers mirror each other. The leaders worry that when a company such as Microsoft looks for the best minds to stock its research laboratories, it no longer confines itself to Europe, Japan or America. It also alights on Bengalooru and Beijing. The Chinese worry that when their best students look for a place to apply their talents, they do not turn to China's domestic champions. They flock to foreign firms instead. When Microsoft unveiled its Beijing lab in 1998, one local newspaper described it as a “talent enclosure movement”.

India's traditional fear of multinationals has eased in recent years. Now China more than India is prey to “techno-nationalists”. Its accomplishments do not satisfy them, because none is pure-bred. The country's technology stock is thoroughly miscegenated. Even its vaunted 3G-telephony standard has a German accent.

Piggyfrogging

This special report has found much to fan the fears of the techno-nationalists: India and China's precocious economies have done more piggybacking than leapfrogging. They have made clever use of foreign technology—assembling it, copying it, servicing it and customising it—but their firms have yet to create very much to rival it. The nationalists may fret about this, but an economist instead finds much to applaud. A country should face the risks and frustrations of invention only when it has no easier route to economic progress.

Magnum

Chinese invention lights up the sky

Besides, firms enjoy great scope for innovation, even if they do not march across the technological frontier. Indian and Chinese firms have a comparative advantage in finding new uses for existing technologies, and combining them in novel ways. This kind of “architectural innovation” may be scientifically modest, but it can nonetheless be commercially significant. This was, after all, how Japan's electronics firms came to dominate their market.

In making this kind of innovation, both countries can draw inspiration from their vast ranks of adventurous consumers, who may be a greater spur to technological creativity than any number of white coats or government exhortations. This is one reason why a nation's technological fortunes rest as much

on its powers of adoption as they do on its powers of invention. The shallow penetration of computing in India and the retarded spread of 3G phones in China should trouble their policymakers as much as the number of patents filed or scientific papers cited.

Besides, now that R&D is globalised, what does it mean to say that a technology is “invented in India or China”? What counts as “indigenous innovation”? India's Nicholas Piramal uses Swiss machines to study Indian herbs, thereby adding to a bio-library it bought from a German multinational. India's TCS serves a Canadian bank, drawing on workers from Canada, America and India, using a software application from Switzerland. “Do you call it 'made in India'?” asks S. Ramadorai, the company's chief executive.

Like the electrons passing through a chip, knowledge can circulate between countries. But just as silicon must be “doped” before it will conduct, so developing countries must mix imported knowledge with ideas of their own before they can truly assimilate them.

If that is what China means by “indigenous innovation”, then it will continue to prosper. If it is ready to mix and match, and to learn from foreigners and, most important of all, from its own consumers, it will thrive. But the state should not fancy that technology can be owned from bottom to top, or that innovation can be accomplished by decree. And in a country that still censors the internet and distrusts the free flow of information, knowledge does not yet conduct as well as it might.

China's Ministry of Science and Technology recently held a meeting with the OECD in Beijing to discuss the country's “innovation system”. One local participant left feeling a bit dissatisfied. Presentations were given; discussion ensued; careful assessments of China's patents, publications and PhDs were offered. But he was tempted to ask a simpler, perhaps more pertinent question: could someone please help me unlock Wikipedia?

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Offer to readers

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Conversational marketing

Word of mouse

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Illustration by David Simonds

Will Facebook, MySpace and other social-networking sites transform advertising?

DEPENDING on your age and memory, it was a week of radically new or reassuringly old developments in the advertising industry. To Mark Zuckerberg, who is 23 and the boss of Facebook, a popular social-networking website, it was the former. Standing in front of about 250 mostly middle-aged advertising executives on November 6th, he announced that Facebook was offering them a new deal. “For the last hundred years media has been pushed out to people,” he said, “but now marketers are going to be a part of the conversation.” Using his firm's new approach, he claimed, advertisers will be able to piggyback on the “social actions” of Facebook users, since “people influence people.”

Mr Zuckerberg's language was strikingly similar to that of Paul Lazarsfeld and Elihu Katz in their book “Personal Influence”, a media-studies classic from 1955. They argued that marketers do not simply broadcast messages to a passive mass audience, but rather that they target certain individuals, called “opinion leaders”. These individuals then spread, confirm or negate the messages of advertisers through their own “social relationships”, by word of mouth or personal example.

Messrs Lazarsfeld and Katz, of course, assumed that most of these conversations and their implicit marketing messages would remain inaudible. That firms might be able to eavesdrop on this chatter first became conceivable in the 1990s, with the rise of the internet. Thus the main thesis of “The Cluetrain Manifesto”, written in 1999, was that “markets are conversations” which the web can make transparent.

Mr Zuckerberg's underlying idea is therefore hardly new. But, says Randall Rothenberg, the boss of the Interactive Advertising Bureau, a trade association, the announcements this week by Facebook and its larger rival, MySpace, which has a similar ad system, could amount to a big step forward in conversational marketing. If new technologies that are explicitly based on social interactions prove effective, he thinks, they might advance web advertising to its fourth phase.

In the past decade the internet has already produced three proven advertising categories. First came “display” or “banner” ads, usually in the form of graphical boxes on web pages, now often with embedded videos. Today these account for 32% of online-advertising revenue. Next are classified ads, now 17% of the total. The bane of many small-town newspapers, these are the postings on sites such as Craigslist. The third, and now largest, category is search advertising, with 41% of the total. Proven though not invented by Google, the biggest search engine, these are the text snippets that appear next to search results for a specific keyword.

Together, these three types of online advertising are already transforming entire industries and businesses. This week IAC/InterActiveCorp, a struggling web conglomerate, said it would break itself into

five separate companies, primarily so that its advertising-focused sites—including Ask.com, another search engine, and Match.com, a dating site—could be valued separately from the retailing, lending and ticketing sites. Meanwhile, antitrust watchdogs in America and Europe are scrutinising (but seem unlikely to block) the acquisition by Google of DoubleClick, a big display-ads firm, in response to fears that Google might become as dominant in that category as it is in search ads.

From the point of view of marketers, these existing types of online ads already represent breakthroughs. In search, they can now target consumers who express interest in a particular product or service by typing a keyword; they pay only when a consumer responds, by clicking on their ads. In display, they can track and measure how their ads are viewed and whether a consumer is paying attention (if he turns on the sound of a video ad, say) better than they ever could with television ads. Yet now the holy grail of observing and even participating in consumers' conversations appears within reach.

The first step for brands to socialise with consumers is to start profile pages on social networks and then accept “friend requests” from individuals. On MySpace, brands have been doing this for a while. For instance, Warner Bros, a Hollywood studio, had a MySpace page for “300”, its film about Spartan warriors. It signed up some 200,000 friends, who watched trailers, talked the film up before its release, and counted down toward its DVD release.

Facebook, from this week, also lets brands create their own pages. Coca-Cola, for instance, has a Sprite page and a “Sprite Sips” game that lets users play with a little animated character on their own pages. Facebook makes this a social act by automatically informing the player's friends, via tiny “news feed” alerts, of the fun in progress. Thus, at least in theory, a Sprite “experience” can travel through an entire group, just as Messrs Lazarsfeld and Katz once described in the offline world.

In many cases, Facebook users can also treat brands' pages like those of other friends, by adding reviews, photos or comments, say. Each of these actions might again be communicated instantly to the news feeds of their clique. Obviously this is a double-edged sword, since they can just as easily criticise a brand as praise it.

Facebook even plans to monitor and use actions beyond its own site to place them in a social context. If, for instance, a Facebook user makes a purchase at Fandango, a website that sells cinema tickets, this information again shows up on the news feeds of his friends on Facebook, who might decide to come along. If he buys a book or shirt on another site, then this implicit recommendation pops up too.

There are plenty of sceptics. Some people may find all this creepy, so Facebook will allow people to opt out of sharing their information. Another potential worry is that the analytical information passed on to advertisers may be of poor quality, because so much of what people put on their profiles is made up or out of date. Chris DeWolfe, the boss of MySpace, counters that his research shows that 98% of American MySpace users correctly report where they live. And they tend to report important changes in their lives—such as getting engaged—promptly. This presents great marketing opportunities.

Yet another problem, says Paul Martino, an entrepreneur who launched Tribe, an early social network, is that the interpersonal connections (called the “social graph”) on such networks are also of low quality. Because few people dare to dump former friends or to reject unwanted friend requests from casual acquaintances, “social graphs degenerate to noise in all cases,” he says. If he is right, social-marketing campaigns will descend into visual clutter about the banal doings of increasingly random people, rather than being the next big thing in advertising.

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Google and mobile phones

What, no phone?

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The internet giant finally reveals its plans for mobile phones

Get article background

IN THE world of technology, reality rarely lives up to the hype. But seldom has the gap been so wide as with Google's mobile-phone initiative. Months of speculation culminated in rumours, which the internet giant did not deny, that it would introduce its own, more affordable answer to Apple's blockbuster iPhone. Yet when Google took the wraps off Android, its secret mobile-phone project, on November 5th, it turned out to be little more than a software package for mobile phones backed by an “Open Handset Alliance” of 33 partners, including wireless operators and phonemakers. There is no “gPhone”, and the first Android handsets will not be available until late 2008. Will Android matter?

In recent years there have been many grand alliances in the mobile-phone industry. These have often been formed in order to neutralise a market leader, but as often as not have failed to achieve anything. Google's new alliance includes some big names. But Samsung, the number three handset-maker, always joins everything; Motorola, the number two, is in trouble and could do with a helping hand from Google; the same is true of Sprint, an American wireless operator. The heavyweights—Nokia, Vodafone, AT&T, Verizon Wireless, not to mention Apple and Microsoft—are conspicuous by their absence.

Yet perhaps this alliance will be different. It has a powerful leader and it will soon have a product to show, since much of the Android software will be released this month. It will be open source, meaning that it is free and can be easily customised, which should appeal to handset-makers. Most important of all, the wireless industry may be ready for a new model, just as the computer industry was 25 years ago. As phones become ever more like computers, consumers are unwilling to stay within “walled gardens” built by mobile operators. They want to pick their own software and services, just as they do on their PCs. Android's aim is to make this possible.

Google is prepared to spend huge sums to make Android a success, since it hopes to pipe ads onto Android phones. This is the latest example of its strategy to make more money in its main business—online advertising—by opening up other markets. Recently it unveiled OpenSocial, a set of software standards for social networks, which is also intended to create more outlets for online ads (and to keep Facebook, a leading social network, from becoming a serious competitor for them). Will this strategy work? Investors seem to think so. This week Google's shares hit a new high, making it America's most valuable firm.

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The Hollywood strike

Down pens

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Writers have gone on strike to demand better pay for new media

Reuters

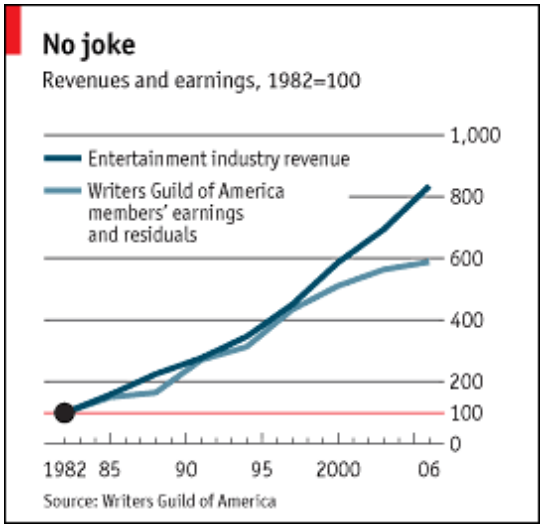
IN AN essay, “The Catastrophe of Success”, Tennessee Williams wrote that “security is a kind of death, I think, and it can come to you...anywhere at all that is removed from the conditions that made you an artist.” That may offer comfort to the thousands of writers in Los Angeles and New York who went on strike this week, risking their incomes and careers. They want more money for their work when it is used online than Hollywood studios are willing to pay. Because the strike is over matters of principle, not just dollars and cents, it could last for months.

The immediate effect was to shut down late-night talk shows, including “Late Show with David Letterman” and “The Tonight Show with Jay Leno”. (Mr Leno took doughnuts to a picket line in Burbank on Monday.) If the last writers' strike, in 1988, is any guide, the talk shows will stay silent for a couple of months before going back on air without scripts. Soaps will be next to go, in a week or two; then prime-time dramas, a few weeks later. Some say the film business is safe, because studios have stockpiled scripts. But scripts often need tweaking by writers at the last minute.

Media companies argue that the market has become increasingly competitive and uncertain for many reasons, including internet piracy and tumbling box-office receipts. They want to cut writers' income from “residuals”, which are payments made when a TV show is re-used. The writers are determined not to repeat the mistake they made in 1985, when they listened to the studios' plea that home video was an unproven new market and agreed to a residual payment of 0.3%, which translates into about four cents for each sale of a DVD—or one-tenth of what DVD-box manufacturers get. The writers now want a residual payment of 2.5% for re-use of material online and on mobile phones.

The studios say that internet delivery is the same as home video, so the old rate still applies. And they refuse to pay anything to writers when content is streamed over the internet free to viewers, supported by ads, because this is merely “promotion”. Both sides made last-minute concessions on traditional-media payments. But because new-media rights are so critical to the future earnings of writers and studios, neither was willing to compromise.

Who will suffer the most? “The strike won't affect most studios unless the writers stay out three to five months,” says a senior executive at a media conglomerate. Because writers on reality and animation programmes are not unionised, the networks will be able to switch to other forms of programming; sport will fill the gaps, too. But Moody's, a credit-rating agency, reckons that a strike lasting into late 2008 would have a serious financial impact. Broadcast networks and premium-cable channels would be hurt most, because they rely most on first-run scripted shows.



Some writers, of course, are wealthy. “I'm walking the picket line with some guys who are worth millions,” says Lou DiMaggio, a reality- and game-show writer who won an Emmy award for “Win Ben Stein's Money”. But the vast majority of writers, he says, earn about $50,000-75,000 a year. Mr DiMaggio says he backed out of buying a house because of the strike; junior

writers may have to go back to waiting tables. Luckily for Hollywood, however, most scribes are too devoted to their calling to be put off. Gary Goldman, a writer picketing outside Fox Studios who has worked on science-fiction thrillers such as “Minority Report”, says that many writers will spend their free time working on screenplays that they hope to sell to the studios on spec. “I think we're allowed to do that,” he says.

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Cross-border shopping

A nation of angry shoppers

Nov 8th 2007 | OTTAWA
From The Economist print edition

Retailers in Canada are under attack for not cutting prices fast enough

Get article background

CHRIS SMITH, co-owner of a small bookshop in Ottawa called Collected Works, assumed his customers would remain loyal even as the rapid appreciation of the Canadian dollar against its American counterpart made a mockery of the gap between the twin prices printed on the covers of American books. But when Mr Smith asked a few regulars, he was shocked to find that they were going online to buy American books from retailers south of the border. In an effort to keep his existing trade, he now uses the much lower American figure as the Canadian price, even though this means selling American books at a loss. (In the case of Alan Greenspan's book “The Age of Turbulence”, for example, the prices on the jacket are $35 and C$43.95.)

At least this has moved Mr Smith safely to the sidelines as angry Canadians rebel against paying higher prices for American goods now that the loonie has met and surpassed the value of the greenback (the Canadian currency touched $1.10 on November 7th, its highest level since the 19th century). The Canadian dollar has been rising steadily against the American dollar since 2002, when it hit a historic low of about $0.62. But this year it has soared by almost 25%, owing to a combination of the American currency's weakness and the high prices of Canadian exports such as oil, gas and metals. Consumer grumbling became a roar when the gap between the two dollars closed in late September, making it easy for shoppers north of the border to see how much more they were paying.

Talk of hundreds of thousands of Canadians streaming south in search of bargains captured the headlines. Many went. But cross-border shopping is easier in theory than it is in practice. Canada has stringent limits on the amount shoppers can bring home without paying sales taxes and other duties. Headlights and bumpers on some American cars must be modified for use in Canada. And some firms refuse to honour warranties on imported goods.

All this is too much for many shoppers, who have either turned on their local retailers and demanded immediate discounts, or turned to the internet, where goods such as books are easy to buy. Canada Post, the state-owned postal service, has had to add extra shifts at its international mail-sorting centres as a result.

The government hopes that the reduction in January of the national goods and services tax from 6% to 5% will help, and Jim Flaherty, the finance minister, has called upon retailers to speed up price reductions. David Dodge, the central bank governor, was more nuanced in his comments, urging Canadians to shop around for the best deal, but also pointing out that prices will never be exactly the same on both sides of the border because there is less competition in Canada. State-owned liquor boards in many provinces, for example, have monopolies. When it comes to passing on currency savings, liquor boards are the worst offenders, says Dale Orr of Global Insight, a consultancy.

Retailers who face competition have been forced to react, even as they blame wholesalers and distributors, or inventory lag. In the past month, large American-owned chains such as Wal-Mart, Zellers, the Hudson's Bay Company and Sears Canada have announced new prices for products imported from America.

Will all this placate angry consumers? Perhaps. A recent poll by Ipsos Reid showed that most understood that it would take time for Canadian prices to match those in America. But as Mr Dodge points out, it might not happen. Just as the introduction of the single currency in Europe exposed differences in taxation and regulation among countries, the same is likely to occur in Canada, says Mr Orr. Then it will be the government's turn to deal with consumer complaints.

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Shipbuilding

Collision course

Nov 8th 2007 | ULSAN AND GEOJE ISLAND
From The Economist print edition

South Korea's shipyards are booming, but can they fend off China?

THE world's three biggest builders of ships, Hyundai Heavy Industries, Samsung Heavy Industries and Daewoo Shipbuilding & Marine Engineering, are polite but firm. A visit to their shipyards on South Korea's south-east coast is encouraged. A trip to their research and design centres, which house 5,249 naval researchers and architects, is not. South Korea's shipbuilders are particularly secretive because Chinese rivals are luring away many of their most highly qualified employees. The two countries are competing furiously to be the world's biggest builder of ships. Some analysts reckon that, on current trends, China could pass South Korea by 2012.

The shipbuilding industry has boomed in recent years in tandem with the global economy. The world is making one ship a day, and older vessels which would normally have been scrapped are being kept afloat. “What goes up, goes down. The boom will not last,” says Ki Won-kang, Daewoo's chief production officer. For now, however, the strong demand for ships has resulted in a shortage of about 2,000 skilled labourers, according to the Korea Shipbuilders' Association. The most highly qualified staff, some of whom earn $100,000 or more a year, are leaving for Shanghai and Guangzhou and even higher salaries and bonuses.

Measured by volume, almost 40% of global orders for new ships last year went to shipbuilders in South Korea, according to Lloyd's Register. China won 23% of new orders (up from just under 12% in 2001) and Japan almost 20%. Analysts suspect that China is already making more crude-oil tankers and dry-bulk vessels—the simplest kinds of ship—than South Korea.

The South Koreans say they are not all that worried. “Some people say China will take our market share, but China is taking Japan's share, as they mostly build the same type of vessels,” says Lee Kwang-ho, a spokesman for Hyundai. South Korean shipyards are concentrating on building highly engineered vessels, which the Chinese do not yet make in any significant number. Samsung, for instance, has launched the world's first ice-breaking oil tanker, which was ordered in 2005 by Sovcomflot, a shipping company owned by the Russian government. It has not built a dry-bulk vessel for four years.

Norwegian and Australian buyers on Geoje Island, one of South Korea's main shipbuilding hubs, say that new shipyards in China and elsewhere cannot compete with South Korean quality or technical expertise. They also complain that Chinese firms often have trouble meeting production deadlines.

Nevertheless, South Korean shipbuilders are taking the Chinese threat seriously. They may even be able to turn it to their advantage. Samsung and Daewoo have started to use Chinese shipyards to bring costs down: the wages of lower-skilled workers in Chinese yards are one-tenth of those of their South Korean counterparts. A delegation representing the South Korean firms was in North Korea this week investigating the possibility of doing the same thing in that country. Mr Ki says he plans to visit North Korea soon to see if Daewoo could establish a ship-repair yard or build parts of ships' hulls there. The two countries' proximity and the low cost of labour in the North, he hopes, could help to keep the South Koreans on top.

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Big oil

Over a barrel

Nov 8th 2007
From The Economist print edition

Rising oil price equals rising profits, right? Wrong

AS THE oil price climbed towards $100 a barrel during the past few weeks, big Western oil firms were reporting their results for the third quarter. Record oil prices, it turns out, do not translate into record profits. Oil is now close to exceeding the record set in 1979 of between $100 and $110, depending on how you adjust for inflation and what benchmark you use. Yet almost without exception, big oil firms' profits are falling from the peaks reached last year.

Exxon Mobil, for example, reported a 10% drop in profits in the third quarter, and BP's fell even more sharply. Profits also fell at Chevron, ConocoPhillips and Eni. They rose at Total and Royal Dutch Shell—but only thanks to exchange-rate fluctuations and one-off asset sales. Analysts at Citigroup calculate that, measured in dollars, the biggest oil firms' earnings fell by 15% on average.

To be fair, the oil price has surged most dramatically since the end of September, although it was also buoyant in the third quarter. The majors' poor showing also reflects lower profits from refining, as the difference in price between petrol and crude oil has fallen from the exceptionally high levels of recent months.

But the fact remains that oil giants are struggling to pump more oil and gas. In part, this is due to a quirk of the rules that oblige Western oil firms to share the crude they produce with state-owned oil firms in many countries. The contracts in question often stipulate that as the price goes up, the volume of oil the foreigners receive decreases. Worse, several countries are changing contracts or tax rules in ways that will further erode the Western oil firms' profits—and in some cases are throwing them out altogether.

Rising costs are also a problem. Exxon, which is known for its stringent financial discipline, saw costs rise almost twice as fast as revenue in the third quarter. The shortage of labour and equipment that is feeding this inflation is also causing delays to new projects. And there are not enough new projects in the pipeline. The International Energy Agency, an energy watchdog for rich countries, reckons that the expansion plans of the big Western and state-owned oil firms will leave the world 12.5m barrels per day short of requirements in 2015.

Despite this looming deficit and the glaring price signal, all the big companies except Total produced less oil and gas in the third quarter than they did in the same period last year. According to Citigroup, the average decline in overall output was 3.3%. If the relatively steady supply of natural gas is stripped out, the numbers look even worse: oil production fell by 9% on average. No matter how high the price goes, the oil majors cannot make a profit from oil they do not produce.

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Counterfeit goods in China

Mind games

Nov 8th 2007 | SHENZHEN
From The Economist print edition

China is moving forwards, and backwards, on intellectual-property protection

Get article background

IT IS a triumph of sorts. The counterfeit Louis Vuitton, Chanel and Hermès handbags, Rolex and Omega watches, and DVDs that once filled the stores in the vast Lo Wu City shopping mall in Shenzhen's bus and rail complex have disappeared. Throngs of officers patrol to ensure they do not return. It is a clear statement of intent at a crossroads famous for selling knock-offs just over the border from Hong Kong.

Any sense of change, however, lasts for only a few moments. The shop windows are devoid of counterfeits, but Lo Wu City's notoriously pushy sales representatives approach every shopper and whisper what is really available in their stores. Enter a special kiosk and a wall of dresses is pulled back, or handbags pushed aside, to reveal a library of catalogues. Bags from Louis Vuitton, Chanel, Prada, or Hermès? Take your pick. Watches? Choose between Rolex and Omega. Point at a selection, and it will be handed over in a room up the back staircase, behind a tattoo parlour, in a nearby warehouse, or even, for the ultra-unadventurous, back in the shop.

So go anti-counterfeiting efforts in Shenzhen and, by extension, in China as a whole. There are visible signs of progress, often the result of extraordinary efforts; and grating signs of retreat and cynicism. In a recent survey by the Quality Brands Protection Committee, an industry association made up of 181 multinational companies, 28% said problems relating to the theft of intellectual property have eased; a slightly larger amount said things were getting worse. The rest say there is no change—which is, given the starting point, not encouraging.

The situation varies from one industry to another. Pharmaceutical companies seem to be pleased by raids in which large quantities of counterfeit drugs have been seized, but fakes remain abundant. These often look perfect but lack the therapeutic ingredients. Difficulties in securing, extending and enforcing patents continue as well. But there are grounds for hope in part because the Chinese government, appalled by deaths from fake drugs and hungry to develop sophisticated industries, seems to be taking the problem seriously.

Mobile-phone manufacturers have become increasingly vigilant about copies and also seem to be getting results. Motorola, the industry's number two, says border guards in Shenzhen and Guangzhou have stopped people 75 times in recent months for carrying counterfeit products; police have conducted 14 raids on factories, and other government departments have carried out a further 65. In August a big raid on a factory led to the seizure of fake Motorola, Nokia and Sony Ericsson phones worth 3m yuan ($400,000) and the detention of 12 people. Another case earlier this year led to three convictions.

Now for the bad news

But even here, progress is not clear. Chinese government statistics show that the number of criminal cases relating to intellectual property fell by 35% in 2006. And the rules surrounding investigations and prosecutions are cumbersome in the extreme. Each case must normally begin with an investigation by government agencies whose authority is tightly circumscribed. They cannot, for example, go into homes—so that is, not surprisingly, where fake goods now tend to be produced and stored. Only products worth more than 50,000 yuan can be passed on to police; so counterfeiters limit inventory to just below this point. When arrests are made, they are typically of small fry. The process can be painfully bureaucratic and requires complainants to have a nuanced understanding not only of Chinese law, but also of the subtle levers within the government and the justice system.

Even successful brand-owners recognise that they are at best controlling a problem, not eliminating it. Sellers on online auction and trading sites use carefully chosen expressions to indicate that they are

offering counterfeit goods. Local prefecture officials are less interested in abstract property rights and legal nuances than they are in firms creating jobs.

And in some cases the government seems quite happy to look the other way. Piracy of films and music, in particular, is rampant. The small signs of improvement—a slight reduction in the number of pirated DVDs and CDs sold on the street—are overshadowed by new websites offering Hollywood's entire library. Somehow China manages to do an excellent job of blocking internet content that might cause political problems, but is unable to stem the flow of pirated foreign films and music.

As part of its terms of entry to the World Trade Organisation, China agreed to allow 20 movies to be imported annually. The film industry says it thought this would be a floor, but it has become a ceiling. A government edict that foreign firms can retain only 13% of box-office receipts, far too little to justify promotion for anything short of a blockbuster, further undermines the case for providing films legally, and has the effect of encouraging piracy.

The lively academic debate inside China about whether intellectual property already enjoys too much protection may well have provided an excuse for lack of action. This argument was particularly easy to make when Chinese products were less sophisticated. As Chinese prowess grows, however, the cost of not having property rights has started to become more apparent. The availability of free foreign movies and television has certainly held back development of a domestic industry. And Chinese firms increasingly have technology, brands and content they want to protect.

Patents filed by Chinese companies overseas were up by 58% in 2006; in the number of patent applications China now ranks third, behind America and Japan. Senior government officials, who have repeatedly stated that they want China to create advanced products, have realised that no one will create anything without some guarantee of protection. Calls for stronger protection have hitherto come from America and the European Union, but Chinese firms would benefit too.

For their part, Chinese consumers seem to be taking a greater interest in non-pirated goods. Trains leaving the station next to the Lo Wu City mall arrive at Tsim Sha Tsui station in Kowloon. Not far away, it is common to see mainland Chinese residents forming long queues to buy genuine versions of the counterfeit products that are on offer back in Shenzhen—for 100 times the price.

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Face value

The anti-mogul

Nov 8th 2007
From The Economist print edition

Landov

Jeff Bewkes, the next boss of Time Warner, is likely to break up the company

Get article background

THIS week Jeff Bewkes secured one of the sexiest jobs in business. On January 1st he will become chief executive of Time Warner, a huge media company which owns Warner Bros, Hollywood's biggest film studio; HBO, the maker of America's best television programmes; Time Inc, the publisher of iconic magazines such as *Sports Illustrated*; and CNN, an international television-news channel. But the new boss has more serious things to do than hobnob with the stars. “You think I'm hanging out with Russell Crowe,” he jokes, “but usually I'm in a meeting with an electronics firm.” He needs to placate investors: Time Warner's shares have risen by only 13% in the past five years and have dropped by a tenth in the past year. Mr Bewkes is now widely expected to reshape Time Warner into a much smaller company by selling or spinning off some of its businesses.

At the moment, Time Warner conforms to the reigning orthodoxy in traditional media: that sheer size gives a company clout, and that owning distribution networks is vital to ensure that video content can always get to viewers. As well as content, Time Warner owns a cable firm, which contributed 34% of revenues in the most recent quarter. But cable requires huge capital investment, especially now that it has to compete with telecoms companies offering television services. Under Time Warner's departing chief executive, Richard Parsons, the firm spun off 16% of its cable division. Though Mr Bewkes said little about his plans this week, the word at the company is that he will get rid of the other 84%—and possibly other divisions too.

In some ways Mr Bewkes is an unlikely radical. He is a low-key insider with an excellent record, who has worked at Time Warner since 1986. For much of the time he worked on the business side of HBO, a group of pay-television services, before being made chief operating officer of Time Warner in 2006. In recent times private-equity investors rather than seasoned TV executives have had the boldest ideas for traditional media—for example, Carl Icahn, a corporate raider, campaigned last year for Time Warner to break itself into four pieces. But Mr Bewkes is known for being analytical and even cold-blooded in his approach to the media industry. It was he who pushed to sell Warner Music, the company's legendary recorded-music label, to a private-equity firm in 2003. And after Time Warner's disastrous union in 2001 with AOL, an internet firm, he was one of the first executives to denounce the merger in internal meetings, according to people at the company.

As *Variety*, a trade publication, noted in October, Mr Bewkes will in fact be the first real businessman to run Time Warner. Mr Parsons' skills were mainly diplomatic, and his predecessors, Gerald Levin and

Steve Ross, were best known for dealmaking. Mr Bewkes believes managers can be just as creative as writers and performers. “There's not much difference between the executives at Google and AOL and Yahoo!, and the television people designing new kinds of programmes,” he says.

AOL is still a problem. Most of its revenues come from its internet-access business, which is in decline. In 2006 Mr Bewkes changed AOL's strategy to concentrate on increasing its online-advertising revenue, which is now growing quickly. Many shareholders would nevertheless like him to get rid of AOL entirely, but insiders say he is more likely to sell just the access business. A tougher decision will be whether to sell Time Inc. Unlike AOL's access side, or the cable division, Time Inc is a content business, and it sits at the heart of Time Warner's culture. But although there are synergies between print and other media, there are perhaps not enough to compensate for slowing growth as advertisers switch from print to the internet. Journalists at Time Inc take comfort in the fact that Mr Bewkes is “a content guy”, but others think he may be more attached to television than print.

Cutting the cable

Does a break-up make sense? “I believe strongly in trial and error, and Time Warner needs to move faster, take more risk and change course more often,” says Mr Bewkes. If he got rid of cable, AOL's access business and Time Inc, he would be left with two movie studios, some highly desirable cable channels and an online-advertising business. Together these units' revenues amount to a little over half of Time Warner's total. The good news, says a rival media executive, is that Time Warner would be a cleaner company and its share price would go up; but “the bad news is that he's a much smaller company and potentially vulnerable to takeover.” Strategically, divesting cable would be the most drastic move. Time Warner would have to rely on the quality of its programming to get carriage on other firms' distribution systems, and might find it harder to launch new channels. That said, distribution systems are proliferating, so content should be able to stand on its own.

A shake-up will surely benefit Time Warner. The more important question, however, is whether Mr Bewkes has a longer-term vision for how the firm can thrive in the digital age. “His time as chief executive will not only be about deconstruction but reinvention, through organic growth and sizeable acquisitions,” says Peter Kreisky, a media consultant. Some speculate that a slimmed-down Time Warner might buy NBC, a broadcast network, from General Electric. Others say Mr Bewkes should focus on new media. Though it has snapped up a few smaller outfits, Time Warner missed the chance to buy big internet-advertising firms such as DoubleClick (bought by Google) and aQuantive (bought by Microsoft), says an investor whose firm owns a large chunk of the company. Instead it spent $20 billion buying back its shares, to little avail. Time Warner should now make internet acquisitions, he suggests. If Mr Bewkes can get that side of things right, he may yet come to be known as the rebuilder of Time Warner, not just as a dismantler of other people's visions.

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Toyota

A wobble on the road to the top

Nov 8th 2007 | DETROIT AND TOKYO
From The Economist print edition

AP

Although it is very close to becoming the world's biggest carmaker, not all is running smoothly at Toyota

CAR bosses are expected to perform silly stunts at motor shows. But whoever had the bright idea of putting Toyota's president, 65-year-old Katsuaki Watanabe, into a “personal mobility concept” for his appearance at last month's Tokyo show should give thanks for the company's lifetime employment policy.

The machine, called an i-REAL (pictured above), looks like a cross between a Segway and a wheelchair for an ageing Jetson. The unflamboyant Mr Watanabe's grin looked distinctly forced. Nor did he appear all that convinced by another Toyota vision of the future, the RiN. This weird-looking car encourages drivers “to re-evaluate themselves and...to turn their attention to society and nature, producing a healthy rhythm for both mind and body” by adapting to their psychological state with a “mood-training” steering control.

It is easy to dismiss all this as typical Tokyo motor-show wackiness with the life-expectancy of a dragonfly. But those eccentric vehicles had a job to do: to polish Toyota's image as a car company with a highly developed sense of social responsibility rather than one chasing growth at all costs, just as it is about to realise its long-standing ambition of becoming the world's biggest vehicle producer. By the end of the year, Toyota is set to edge past General Motors (GM) with forecast group sales of 9.34m vehicles compared with GM's 9.29m. At the same time, it will decisively push Ford into third place in the crucial North American market.

The way to make them

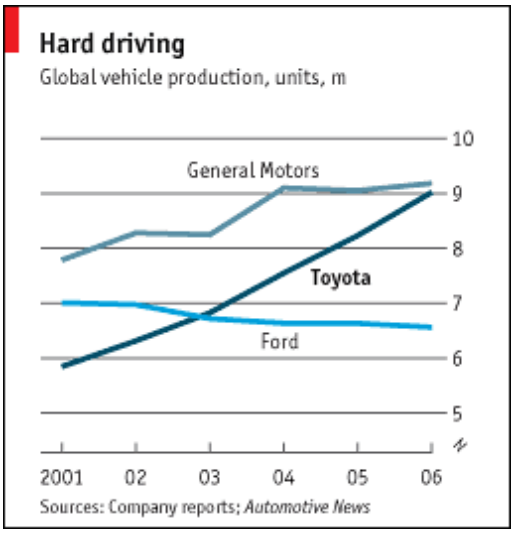
But despite the sweetness of the moment, it is almost forbidden for Toyota executives to talk about becoming Number One. When asked, they all say the same thing: being biggest doesn't mean anything; what matters is doing your best for the customer. Boastfulness or crowing over Detroit's agonies is most definitely not part of the Toyota Way, the 14 principles that underpin the firm's management philosophy. And despite having created the capacity to build more than 2m vehicles in North America by 2010 (more than half the number it expects to sell) Toyota has never entirely lost its fear that success could provoke a protectionist backlash.

But there are two other things the firm's executives like talking about even less. The first is the strain the drive to the top has put on the fabled Toyota Production System. In the past couple of years, a series of unToyota-like quality problems have begun to nibble away at the firm's reputation as the world's most

admired manufacturer and as a byword for reliable vehicles. In July 2006, after some conspicuous product recalls, Mr Watanabe bowed in apology and promised to fix things with a “customer first” programme that would redirect engineering resources and, if necessary, lengthen development times. But the recalls have continued and Toyota is still slipping in consumer-quality surveys. The company's global head of manufacturing, Takeshi Uchiyamada, recently expressed “shame” at the problems with the latest Tundra full-size pick-up.

The second embarrassment, which is causing unwelcome attention in America, is the gap between Toyota's carefully nurtured image of environmental concern, exemplified by the hybrid technology found in the pioneering Prius, and other products, like the new Tundra and the Lexus LS 600h luxury sedan. The Tundra is advertised as the baddest, brawniest truck on the market. Although the 600h is a hybrid, it tips the scales at more than 2,360kg (5,200 pounds) and uses more fuel outside town than the non-hybrid version of the car. Even more disappointing for some of Toyota's American fans is its decision to team up with Detroit's “Big Three” in an effort to undermine a Senate energy bill that would force American carmakers to reach a not-too-demanding fleet average of 35mpg by 2020.

As Toyota Motor Corporation celebrates both 70 years as a carmaker and half a century of selling cars in America, it would be a huge exaggeration to suggest that there is any danger of the wheels coming off “the machine that changed the world”, as Toyota has been called. But there is an unmistakable feeling that at the very moment of its greatest triumph, Toyota has wobbled.



At first sight, there is little for Toyota to be concerned about. While its American rivals have cut back production of cars they can't sell, each year Toyota sets another output record. In the year to the end of March 2007, Toyota sold 8.52m vehicles, nearly a 7% increase over the previous year. On the back of a 14% increase in revenues, Toyota's net income rose by 20% to $14 billion (GM, though it just outsold Toyota, lost $2 billion last year and is sufficiently gloomy about its financial prospects to have this week taken on the chin a massive $39 billion non-cash charge to write down deferred tax credits).

This financial year Toyota expects net income to grow by a more modest 3.4% despite a strong first six months. That is because money is being ploughed into new factories and the development of new models to feed ambitious production targets in the years ahead; Toyota is aiming to sell 10.4m vehicles in 2009. But it is also throwing cash at its troubling quality issues by introducing stringent new controls, hiring more inspection engineers and beginning a mammoth programme of re-training factory workers.

How serious are those quality problems? It is not as if the company has suddenly become careless in the way it makes cars. This is evident at its factory in Miyata on Kyushu, the southernmost of Japan's islands, where it builds the smaller Lexus sedans, the RX350 premium crossover and the Toyota Highlander mainly for export to North America.

Everywhere at the Miyata factory are examples of Toyota's fabled *kaizen* (continuous improvement) approach. As in all its plants, behind every worker hangs the *andon* cord, which, when pulled, instantly summons a supervisor with the power to stop the line before any error is passed on. Each defect is measured and logged for the systematic hunting down of quality problems. On top of this, up to 80 people are employed to inspect 1,400 items on every car before it leaves the factory. The assembly line is a model of perfectly choreographed intensity. Rather than parts being piled up at each point in the line where they are fitted, a fleet of electric vehicles refreshes the supply constantly—not just lean production, but leaner.

Typical of the commitment to creating the best possible product is the water polishing of every car body during painting, which may be unique to Lexus and provides advantages visible only to the trained eye. Even so, up to 30% of the vehicles made at Miyata don't get past the gimlet-eyed inspectors without some tiny fault, usually slightly less than perfect paintwork, requiring painstaking rectification. A lot of the work on Kyushu is carried out by skilled employees rather than by machines. Managers at the factory talk constantly about “craftsmanship”, while the slogan, “we put our entire soul into each and every car”, is never far away.

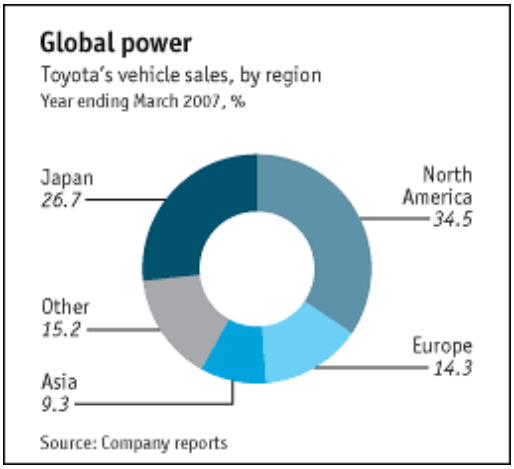
The production evangelists

Perhaps Toyota's greatest achievement is to have proved that it could export its production system, principally to North America, Britain and France. Essential to doing so has been the availability of skilled Japanese engineers, known as *sensei*, who act as team leaders to inspire new recruits and inculcate the "Toyota Way" from Kentucky to Derbyshire.

Four years ago, realising that there might not be enough *sensei* to meet its ambitious production plans, Toyota established its Global Production Center (GPC) in Japan. The idea was to accelerate the development of *sensei* by giving them streamlined teaching methods and training devices. More than 10,000 people have graduated from the GPC and branches are being set up overseas. Nevertheless, executives admit that the stream of new *sensei* has not kept pace with expansion.

It is not just the so-called "transplant" factories abroad that have been affected. The speed with which capacity is being created is putting pressure on the whole system. In mid-October Toyota recalled 470,000 vehicles in Japan with a variety of problems from faulty fuel pumps to defective steering systems. It followed recalls of 2.1m vehicles in Japan and North America last year, when it was ordered by the Japanese government to sort things out. In 2005 there were 1.9m recalls in Japan and 2.3m in America.

Last month it received an unexpected blow from America's influential *Consumer Reports* magazine. Declaring that "Toyota is showing cracks in its armour", it relegated three models from its recommended list: the Camry V6 sedan, the all-wheel-drive variant of the Lexus GS and the Tundra pick-up. The magazine added that it would "no longer recommend any new or re-designed Toyota models without reliability data on a specific design". In other words, it would no longer simply assume Toyotas to be reliable. Overall, Toyota was ranked only the fifth most reliable manufacturer. A recent J.D. Power Initial Quality Study also showed Toyota losing ground to its Japanese rival, Honda.



Toyota points out that the Initial Quality Study is not as important as it once was, because all makes are so much better (the difference between the best and worst is now less than one problem per vehicle). What matters more in generating customer loyalty, says Toyota, is dependability over a typical three- to five-year period of ownership. Toyota can claim that *Consumer Reports* still recommends more of its vehicles than any other carmaker: 17 out of 39. It is also confident of fixing the Camry and the Tundra problems (in the former, a wrongly installed minor component which prevented second gear from engaging; in the latter, a fault in the torque converter that created a loud vibration).

But what should alarm Toyota is that the Camry, long the best-selling sedan in America, is not bought because of its stand-out styling or its class-leading performance and handling. Camry owners cite "reliability", "quality" and "refinement" as their reasons for purchase. Both the new Honda Accord and Chevrolet Malibu provide stiff competition to the Camry, and are also better to drive. As for the re-designed Tundra, launched in February from a new factory in Texas, it has had other problems, from a batch of faulty camshafts to a failure to win a five-star crash rating—something achieved by all its Detroit rivals. Worse still, in the past few weeks stories have begun to circulate on the web suggesting the Tundra's tailgate buckles under heavy loads.

Toyota knows better than any producer that its brand reputation depends on bullet-proof build quality. That has taken decades to establish, but it could be quickly eroded. The answer is meant to be Mr Watanabe's "customer first" initiative, which is designed to put more power into the hands of the chief engineer of any new car in order to achieve a trouble-free launch.

What may be more difficult, according to people inside the company, is finding enough first-rate engineers to carry out exhaustive tests and any last-minute redesigns that may be necessary. The new Highlander SUV is the first to go through this process and Toyota claims it has gone smoothly. However, Masatami Takimoto, the executive in charge of quality as well as R&D, is not prepared to declare victory just yet. He says another two years of new-product launches are needed to evaluate "customer first". The assumption must be that Toyota will eventually get on top of its quality problems, even if it means slowing its production plans. With other carmakers, including GM and cash-strapped Ford, catching up fast with higher quality, any complacency could be fatal.

Toyota also needs more help from its American dealers, who have had less experience handling customer complaints than those selling rivals' cars. After coming 28th out of 36 vehicle brands in a J.D. Power

customer satisfaction survey last year, Toyota's American sales arm came up with a programme called EM2 (“everything matters exponentially”) which was designed to hold a mirror up to all its operations. But the loss of some of Toyota's best American managers has jolted morale. In September Jim Press, a 37-year veteran and the only non-Japanese board member was lured to the new privately owned Chrysler. Four weeks ago, Jim Farley, credited with creating Toyota's entry-level Scion brand, jumped ship to Ford. Another sign of the times is that Toyota, which never used to discount its cars, now gives its dealers almost as much money to help close sales as GM does. According to Art Spinella, of CNW Marketing Research, Toyota's dealer incentives “have more than tripled in the last three years” to an average $3,752 for each vehicle.

What could prove even harder than getting on top of its quality problems is deciding how Toyota wants to be seen in the world. The company talks a great deal about sustainable growth and striving for what it calls “zero negative impacts” on the environment. Mr Watanabe wants his engineers to produce cars that do not pollute at all and prevent their drivers having accidents. Fundamental to this image as a kinder, gentler car company is its pioneering hybrid technology. This year, Toyota sold its millionth hybrid car and Mr Takimoto predicts that by 2010 hybrids will account for about 10% of Toyota's production. By 2020 just about all Toyotas will be hybrids.

But Toyota could easily lose its lead with hybrids through a combination of complacency and technological conservatism. Its Synergy Drive system is about to face strong competition from the 2-Mode hybrid system developed jointly by GM, Mercedes-Benz and BMW. The main advantage claimed for 2-Mode is that it is particularly suited to large vehicles, even heavily loaded SUVs and pick-ups—still the type of vehicles that most Americans buy. A stream of 2-Mode hybrids is about to be launched and these will inevitably deprive Toyota of some of its uniqueness.

A paler shade of green

Look a little farther ahead and Toyota is threatened by its apparent unwillingness to accelerate the development of the next-generation Prius. Although prototypes are on the road in Japan and France with a larger battery that can be recharged from the mains, Toyota says that production of a new Prius will not begin for at least three years. When it does, it might not provide much of a boost in performance. Toyota's hybrid engineers remain sceptical about whether lighter, faster-charging, lithium-ion batteries (the kind used in mobile phones and laptops) will be dependable enough to use in cars because of their tendency to overheat and fail. As a consequence, the next Prius is likely to continue using nickel-hydride batteries, which will limit its range to around 10km when running on electric power alone.

By contrast, GM believes that a car based on its Chevy Volt concept will be ready to launch in 2010. Not only will this use lithium-ion batteries, but it is also designed to run on electric motive power all the time with a small internal-combustion engine employed as a generator when the plug-in charge runs down. The result is likely to be a range on battery power of about 40 miles (64km)—more than enough for the average commuter in America.

When asked about GM's plans, Toyota's engineers are politely sceptical. Unlike its American rival, Toyota insists on developing its own lithium-ion battery technology and believes that the outsourcing route taken by GM is unlikely to produce better or faster results. Although they don't quite say so, Toyota's people think that the Volt is more than likely to blow up in GM's face, quite literally. They may be right: Toyota's experience with hybrid vehicles is unmatched. But if they are wrong, Toyota could be leapfrogged in a technology it has exploited brilliantly to define itself as the world's greenest car firm.

AP

Toyota is already putting its green credentials at risk by siding with Detroit to oppose the 35mpg corporate-average fuel-economy standard for 2010. It is not hard to understand why. Toyota takes the pragmatic view that it has to produce the cars that consumers want and that without a complete product range its ability to keep growing in America would be severely stunted; hence the giant new Tundra.

However, that sits uneasily with the first principle of the Toyota Way—that the company must generate value for society—and with Mr Watanabe's insistence that Toyota be uniquely committed to “sustainable mobility” and, eventually, zero harm to the environment.

Polishing the image

When Toyota's position on fuel standards became known last month, nine of America's leading scientific and environmental organisations took out advertisements in newspapers and started up a website, www.truthabouttoyota.com, to condemn the company for what they saw as its hypocrisy. Prius owners have attended rallies attacking Toyota for its “betrayal”.

The danger Toyota faces is that two of the very things that have made it so successful—the rock-solid reliability of its products and its reputation for making fuel-efficient, greenish vehicles—are threatened by the need to keep feeding its phenomenal growth. Despite some signs of renewed competitive vigour at GM, the momentum Toyota has created means that almost nothing can stop the Japanese company from establishing itself either this year or next as the undisputed leader of the world's car industry. But in doing so Toyota runs the risk that the price of that remarkable achievement will be losing something of its specialness.

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Citigroup

Cracks in the edifice

Nov 8th 2007 | NEW YORK
From The Economist print edition

Illustration by Satoshi Kambayashi

The world's biggest bank loses its boss, and a few billion

ON REFLECTION, it was not the best of metaphors. In an interview in August, as the first wave of subprime woe was crashing over markets, Chuck Prince explained that customers flocked to Citigroup in such trying times because “we are a pillar of strength.” Less than three months later, that depiction looks almost comically awry. A double dose of mortgage-related write-downs—the first big, the second enormous—has made a mockery of risk models and controls at the world's largest bank. On November 4th, as the scale of the second write-down was revealed, Mr Prince took the “only honourable course” and resigned. The troubles of Citi and other big banks helped push down the Dow Jones Industrial Average to its lowest level since mid-September on November 7th.

It is no coincidence that Mr Prince's departure came less than a week after the ignominious exit of his counterpart at Merrill Lynch, Stan O'Neal. Both banks had ploughed gleefully into collateralised-debt obligations (CDOs), which pool mortgage-backed securities and other credit instruments, becoming the top two underwriters in the business. Poorly understood (even by their creators, it seems), these are now souring at an alarming rate.

Citi's exposure to CDOs came as a shock: it had kept $43 billion-worth on its own books. Most of this was highly rated, but so rapidly have subprime-mortgage defaults risen that even this “super-senior” paper is now being downgraded by rating agencies. In the light of this, Citi thinks it will have to take an extra hit of $8 billion-11 billion in the fourth quarter. This has filled other firms that stacked up on CDOs with trepidation (see article).

This is not an isolated slip-up for Citi, which has already had to swallow $1.4 billion of losses stemming from over-exuberance in leveraged buy-outs. It is also heavily exposed—to the tune of more than $80 billion—to some of the so-called structured investment vehicles (SIVs) that have struggled to roll over their debt in commercial-paper markets. On November 7th Moody's, a rating agency, put SIV debt, including Citi's, on review for a downgrade.

These headaches, combined with $26 billion-worth of acquisitions over the past year, have deflated the bank's capital cushion (see chart). The tier-one ratio could fall to a dangerously low 6% or less if it had to absorb and write down SIV assets, estimates CreditSights, a research firm. Citi's shares fell by 7% in a single day last week, an extraordinary drop for a bank with $2.3 trillion in assets, on fears that it would be forced to cut its dividend.

Mr Prince was struggling to get a grip on Citi long before the housing crisis. The bank was bloated, its revenues flat. Only when calls for draconian action came last year from the largest shareholder, Saudi Arabia's Prince Alwaleed bin Talal, did the streamlining take on urgency.

The mortgage mess will ensure that Mr Prince is remembered as a failure. But he deserves credit on other fronts. He pushed Citi into fast-growing emerging markets. He also invested heavily in branches and technology to bring colour to its anaemic American retail operations. Most importantly, says Dick Bove, a banking analyst with Punk Ziegel, an investment bank, he restored senior managers' faith in their ability to bring about organic growth. His predecessor, Sandy Weill, supercharged the share price with a never-ending string of bold acquisitions. But in order to find the money for those deals, Mr Weill stripped operating divisions of much-needed capital. Wall Street never quite appreciated the problems this posed for his anointed successor.

Some of Mr Prince's efforts are just starting to bear fruit. Internal growth has picked up dramatically, helped by a renewed push to channel capital to the most deserving businesses, not to the pushiest. Group revenues in the first nine months were 14% higher than a year before. “If they hadn't got their head taken off because they knew nothing about risk management in mortgages, earnings would have been impressive,” says Mr Bove.

Even so, the blow-up has rekindled worries that Citi may have grown too large and complex to manage. For all Mr Prince's efforts to bring coherence to a dysfunctional family with more than 300,000 employees in over 100 countries, synergies have proved elusive—hence the regular calls for the group to break itself up. The main operating units—global consumer, capital markets, wealth management and alternative investments—still “move to their own beat”, says one Citi banker. Mr Prince used to joke that Citi didn't have a good culture in Mr Weill's day; it had five or six. It still has at least four.

That may explain why there is hardly a stampede to apply for what should be the best job in banking. Several possible candidates seem happy to stay where they are, among them Jamie Dimon, Mr Weill's former heir-apparent. He now runs JPMorgan Chase, where he has, so far, made a better fist of creating an efficient financial conglomerate than his midtown rival. Robert Rubin, a former treasury secretary and Goldman Sachs chairman, appears to have spurned the chance, though he did agree to step in as chairman. Hence the appointment of an interim chief executive, Sir Win Bischoff, who has run Citi's European business since 2000.

The new man (or woman: Citi's wealth-management head, Sallie Krawchek, may be in the running) faces a daunting to-do list. The priority is to calm twitchy investors by showing that the bank is on top of its losses. Analysts still want to know how a pile of CDOs that warranted barely a mention a few weeks ago can now be inflicting so much damage. To be fair to Citi, transparency is improving: this week's “10-Q” filing contained previously undisclosed information about its SIVs, for instance. But Michael Mayo of Deutsche Bank worries that Citi may be entering an “information and management vacuum”: its newly installed fixed-income heads are untested, its temporary boss is an unknown quantity (in America, at least) and it is not planning to offer another financial update before mid-January.

Moreover, like other banks, it is finding that valuing its $135 billion of illiquid assets is more art than science. This week Gary Crittenden, Citi's chief financial officer, told analysts none too reassuringly that the latest valuation of CDOs was merely a “reasonable stab”. He confessed to viewing the mark-downs as no more indicative of “where we are going to come out at the end of the quarter than where we would be two weeks from now”. Further write-downs, beyond the estimated 20% haircut already taken, look probable. In a sign of how grave the problem is, Citi has picked the man who co-ordinated its role in the rescue of Long-Term Capital Management, a hedge fund that collapsed in 1998, to run its new subprime unit.

Compounding the difficulty, the new boss may have to spend much of his time fighting off legal attacks and smoothing regulators' feathers—just as Mr Prince did in his first year. Trial lawyers acting on behalf of shareholders have already taken aim at Merrill and, more recently, Citi. Meanwhile, market watchdogs are scrutinising the bank's accounting treatment of its off-balance-sheet vehicles.

Even if no further horrors are lurking in the shadows (a big if), getting Citi back on track is likely to take the best part of a year. Mr Crittenden is hopeful that its capital adequacy can be brought back to comfortable levels by mid-2008. On numerous key financial measures, including free cash flow (of over $20 billion), the bank still looks reasonably healthy. It says there is no need to cut the dividend.

But markets, twice bitten in less than a month, are understandably shy. Citi is now seven times more likely to default on its debt than it was in June, according to derivatives markets. There is even talk of the

need for a white knight—perhaps a sovereign wealth fund—if Citi's mortgage losses continue to mount. If that seems far-fetched, bear in mind that so did the past week's events only a few months ago.

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Credit markets

CDOh no!

Nov 8th 2007 | FRANKFURT, LONDON AND NEW YORK
From The Economist print edition

With trades scarce and losses mounting, it is going to be a harsh winter

IT WAS not a good omen. This week Lewis Ranieri, a pioneer of mortgage securitisation in his “Liar's Poker” days at Salomon Brothers, sold his property-financing firm because the subprime crisis had cut it off from fresh debt. If the industry's godfather can't navigate the storm-tossed markets, what hope its greedy children?

Banks that a few months ago were falling over each other to underwrite mortgage-backed securities and the labyrinthine pooling structures, known as collateralised-debt obligations (CDOs), that sit atop them, have admitted to more than $30 billion in losses. That figure is set to rise sharply as mortgage defaults in America climb. Citigroup estimates that big banks may be facing $64 billion in write-downs, excluding its own figures—and it was one of the top two underwriters of CDOs. Banks will be dealing with the pain for a lot longer than anyone imagined only a couple of months ago.

Most CDOs were engineered to provide both yield and safety, with a thick band of each rated AAA or even better, “super-senior”. Lower-rated tranches have been in trouble for months. But the prospect of a collapse in the value of the supposedly safe portions terrifies the banks—not surprisingly, since there is at least $350 billion-worth of such CDOs outstanding.

This looks all too possible now that rating agencies have started to downgrade AAA-rated CDOs, some of them by several notches (14 in the case of one notorious tranche). The agencies have given warning in the past month that they might downgrade another $50 billion-worth of top-rated CDOs, and that looks like the tip of the iceberg. One fear is that this leads to a wave of hurried sales, because many institutional investors are allowed to hold only AAA-rated paper. In addition, default notices have been issued on more than $5 billion-worth of CDOs, as senior investors try to grab what they can.

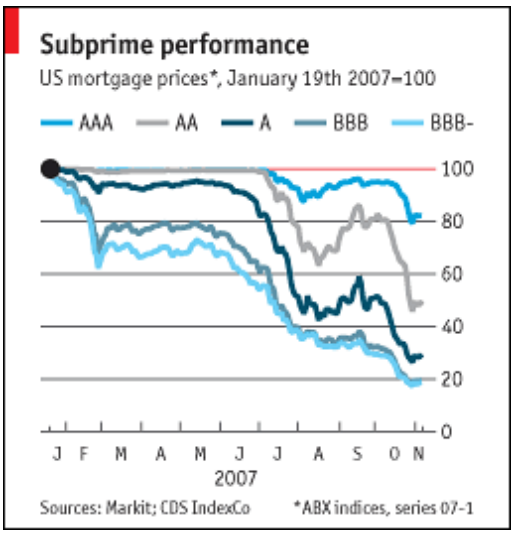
The uncertainty is compounded by the difficulty of finding a “fair value” for these complex instruments. The fall-back method recommended in a recent paper by the Centre for Audit Quality, an industry research body, is to employ “assumptions that market participants would use”, a technique known as “Level 3”, which becomes subject to strict accounting regulations in America on November 15th. But “Level 3 is not that useful,” confesses a risk controller at a big European bank. Banks have tended to use it as a bucket into which they throw any securities they find hard to value and then make an educated guess at the price. Among Wall Street firms, the soaring amounts of Level 3 securities now exceed their shareholder equity.

Finding a better indicator of market prices is no easy task, however. One measure, though an imperfect one, especially for CDOs, is the ABX family of indices. These relate to derivatives linked to subprime, which are traded even when the underlying bonds are not. The ABX indices are near record lows, having fallen precipitously in October. Even the top tranches are well below par value (see chart). According to Citi, some AAA-rated CDO tranches are faring even worse—at a mere 10 cents on the dollar.

Most banks are probably reluctant to mark down their assets that far. Citi and Merrill Lynch lead the list of shame, with combined write-downs of more than $22 billion. But others may just be slower in coming clean—even the teflon traders at Goldman Sachs. CreditSights, a research firm, estimates Goldman's potential CDO-related charges at $5.1 billion, for instance. On November 7th Morgan Stanley said it would write down its assets linked to subprime by $3.7 billion. For the first time, there is serious talk of banking giants running short of capital.

European banks can expect more grief, too. UBS, a Swiss bank, has reportedly been criticised for booking its mid-quality paper at

twice the level implied by the ABX index. Marcel Ospel, its chairman, faces mounting pressure to resign after the bank reported big losses on fixed-income securities in the third quarter.



Banks are not the only ones who need to worry. Hedge funds hold more than 45% of all CDO assets, according to the IMF. Insurers are exposed, too; American International Group, the world's largest insurer, this week fell far short of earnings targets because of mortgage-related problems. In addition, one obscure but important corner of the industry faces a fight for survival over its subprime exposure: the specialist bond insurers.

In return for a premium, bond insurers guarantee repayment of interest on a variety of debt securities in case of default. Their mainstay used to be municipal bonds, but over the past decade they moved aggressively into structured finance. Before October, it was thought that the two biggest, MBIA and Ambac, would get away with losses in the low hundreds of millions. But the rating agencies' assault on high-grade CDOs, the bread and butter of the insurers' structured business, raises the prospect that they could run low on capital. Analysts at Morgan Stanley forecast combined losses for the two firms of up to $18.7 billion. Even the minimum expected loss, a much lower $3.3 billion, would be a huge blow for companies with combined equity capital of just $12 billion.

Some think the rating agencies will eventually have to strip the bond insurers of their cherished AAA ratings. They are loth to do this because it would “wreak havoc”, not only in structured products but across financial markets, says Andre Cappon, a consultant. New issues of municipal bonds could slow dramatically, since many borrowers rely on the insurers' top rating to enhance their own creditworthiness. Over $1 trillion of debt issued by American cities and states—much of it held by retired people through funds—might have to be downgraded. Public-private partnerships in Britain, which are also customers, would also be affected.

For those holding CDOs, things could get worse before they get better. Tim Bond of Barclays Capital points out that defaults on subprime loans are still accelerating in America, particularly on mortgages made since 2006. This will take time to feed through to CDOs, via mortgage-backed bonds, but feed through it will. A consumer-credit slump, which looks increasingly likely, would clobber securities backed by credit-card and car loans, which are also pooled in CDOs. That would be all the beleaguered banks need.

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Buttonwood

Snug as a bug

Nov 8th 2007
From The Economist print edition

Gold may glister but copper is tarnished

FOR the gold bugs, Christmas has come early. Not only is the price of the yellow metal well over $800 an ounce, and within touching distance of its all-time high, but some of their dire predictions are being at least partially fulfilled.

Gold lovers warned repeatedly that the dollar would collapse in the face of low American savings and the country's high current-account deficit. Sure enough, the greenback is now at a record low against the euro and is suffering the indignity of being worth less than a Canadian dollar. For years, bullion's champions moaned about the excessive use of derivatives and claimed that the financial sector was as dependent on credit as a junkie on heroin; now the world's biggest banks are firing chief executives and writing off billions of dollars of derivative positions. The commodity Cassandras also see high oil and food prices as proof of their warnings about inflationary pressures; they simply refuse to believe official numbers about "core" inflation, which they regard as fixed.

Although the gold bugs may yet be proved right about inflationary or financial cataclysm, it is possible to explain the metal's strength without believing all of their claims. The weakness of the dollar is certainly a factor, since gold is regarded as an alternative currency these days, albeit one without a yield. However, every time the Federal Reserve cuts interest rates, the opportunity cost of holding gold is reduced. Furthermore, rising commodity prices also strengthen the attraction of the currencies of producing countries, such as Australia, Canada or Norway, relative to the greenback.

But while gold enthusiasts talk of the metal as the only "real" form of money (and call for the return of the gold standard), it is worth pointing out that other precious metals are also performing strongly; silver has reached a 26-year peak while platinum is at an all-time high.

Undoubtedly, the enthusiasm among institutional investors for diversifying into commodity assets has boosted demand for gold and its brethren. In addition, the creation of exchange-traded funds has allowed retail investors to get direct exposure to the metals without the cost of buying coins, the complications of futures trading or the operational risks of buying shares in gold-mining companies. And when any asset price establishes as strong a trend as gold's recent surge, momentum buyers (such as hedge funds) tend to jump on the bandwagon.

But with gold and oil grabbing all the headlines, it might be easy to miss the rather different picture emerging elsewhere in the market for metals that seems to point to the potential for a slowing of the global economy.

When spot prices are higher than forward prices (a market condition known as backwardation) that is normally a sign that users are desperate to get hold of a commodity and are willing to pay a premium for immediate delivery. Copper has spent much of the last two years in backwardation. But it recently moved to a state of contango, where futures prices are above spot prices. That is hardly surprising given that copper inventories are now at their highest levels since June, according to Bloomberg.

In turn, high inventories may be a sign that demand is weakening. And copper is generally perceived to be the most economically sensitive of the metals (indeed, it has been dubbed Doctor Copper in the markets). Perhaps its most obvious use is in construction (pipes, wires, etc) and the American housing slowdown is clearly having an impact. But it is not just America: housing starts in Japan, the world's second-largest economy, were down by 44% in the 12 months to September.

One could easily dismiss the copper price's move on the grounds that it may simply be working off the effects of previous speculative excess. But Robin Bhar, a metals analyst at UBS, argues that copper looks in a similar position to aluminium, nickel and zinc—where a more than adequate supply position is combined with sluggish demand.

For anyone worried about the global economy as a whole, the story that emerges from the metals market is far from encouraging. The strength of precious metals prices suggests that inflationary pressures are building up, while the base-metals charts indicate, at a minimum, that the manufacturing sector is losing momentum. In other words, the implication of all this is stagflation, the worst possible economic outcome for both equities and bonds.

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Mortgage lenders

Bricks and slaughter

Nov 8th 2007
From The Economist print edition

Lenders in America and Britain retrench, but for how long?

A TOUCH-UP job for the decorators or months of work for the builders? Like homeowners contemplating renovation, mortgage lenders on both sides of the Atlantic must work out what to do now that two of the industry's supporting joists—funding from the wholesale markets and growth in riskier loans—have cracked.

American lenders face the more difficult task. The “implode-o-meter”, a sardonic website tracking the damage done by America's housing slump, puts the number of lenders to have hit serious trouble since last year at 182. Larger firms are suffering too. On November 6th IndyMac Bancorp became the latest big American mortgage lender to report a loss in the third quarter. In Britain, where things are less apocalyptic despite the Northern Rock debacle in September, signs of strain are nonetheless evident in high household debt-service ratios, a record gap between earnings and property prices for first-time buyers and falling mortgage approvals.

Most institutions are becoming more cautious. Lots of lenders relaxed their underwriting criteria when times were good, betting that rising house prices would always ensure a return even if borrowers defaulted. Mark Greene, chief executive of Fair Isaac, a research firm which compiles America's most widely used credit scores, reports that lenders' risk appetites have shrunk. As well as making greater use of such scores to assess borrowers, they are tightening their lending criteria (by demanding larger downpayments, say) and also being more diligent in their tracking of loans after they have been written. New-found caution extends to less risky borrowers as well: according to the Federal Reserve, more than 40% of American banks have tightened standards on prime mortgages since July.

A more prudent approach to funding also now holds sway. That means greater emphasis on retail deposits, where liquidity concerns are less acute, rather than wholesale markets. Doing more to attract deposits may have other benefits, such as opening up cross-selling opportunities, tightening underwriting controls and retaining customers for longer. Countrywide, America's largest mortgage lender, is busily opening banking centres as it seeks to reduce its reliance on capital markets.

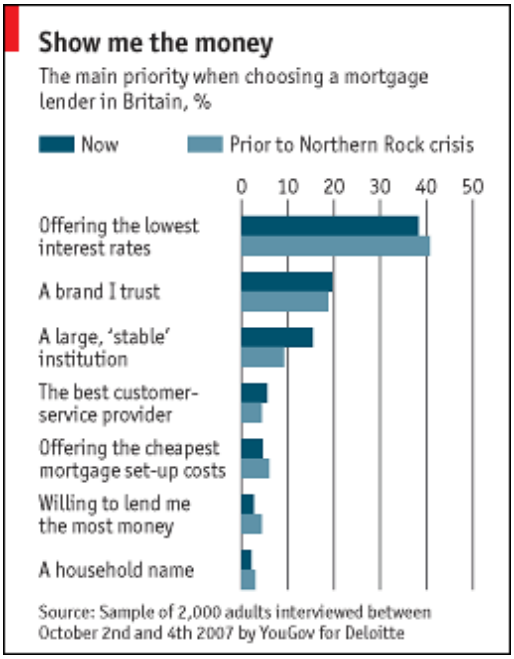
Amid the pain, there are some slivers of comfort. The bigger lenders can expect to pick up some of the slack caused by the disappearance of smaller rivals. Nici Audhlam-Gardiner, head of mortgages at Abbey, Britain's second-largest mortgage lender, says that brokers who previously steered business to now-defunct or struggling players are now turning her way. Consumers may also value the perceived stability of bigger institutions.

The credit crunch has also opened the way to the repricing of loans. Some of this reflects upward pressure on lenders' own costs, as funding has become more expensive, but there is room for a little bit of cream on top. “A fair bit of supply has left the market and the remainder has more pricing power,” says Nick Hill of Standard & Poor's, a rating agency.

The longer-term impact of the credit crunch on lenders' business models is harder to predict (and depends in part on the severity of the housing-market slowdown). Some think that the strategy of chasing volume growth through lower prices has had its day. The boss of HBOS, Britain's biggest mortgage lender, has signalled that the bank will no longer focus on market share as its main measure of success. Chris Samson of Deloitte Touche Tohmatsu, a consultancy, says that several lenders are actively looking at premium products that enable people to manage payments more flexibly over the lifetime of a loan and to release money against housing equity more easily.

Others are less convinced that mortgage lenders can stand out through product innovation. “It's difficult to invent a product without 90 other lenders reproducing it pretty quickly,” says Bob Pannell of the Council of Mortgage Lenders, a British trade body.

Mortgage brokers remain powerful in America and Britain, which tends to work against loyalty to any particular lender. And price is still critically important to borrowers. A survey of British consumers conducted by YouGov for Deloitte after the bank run at Northern Rock found that people paying or considering a mortgage still rank the cheapest rate as much the most important factor in their choice of lender (see chart).



If so, things may end up coming, if not full-circle, then close to it. Craig Focardi of Tower Group, a research firm, thinks that a shift in American lending capacity from subprime borrowers to the prime market spells more intense price competition. Appetite for the most risky lending has genuinely shrivelled, not least because the threat of litigation against predatory lenders hangs in the air. "Truly marginal borrowers are not going to have the same opportunities," says Jeff Nielsen of Navigant Consulting, which specialises in helping firms facing upheaval. But as lenders search for ways to fatten their margins, "near-prime" lending will look attractive to many. It is not just the ranks of people with patchy but not poor credit histories that have swelled as a result of the credit crunch; so too have the amounts of data that can help lenders to spot the signs of financial stress in future. For now, "back to basics" is the mantra among mortgage lenders. But when they start to focus on profits rather than survival, the siren call of risk will sound again.

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The dollar

Ready for a rout?

Nov 8th 2007 | WASHINGTON, DC
From The Economist print edition

The dollar's decline accelerates

Get article background

YOU know that nerves are taut when a couple of stray comments set off a flurry of selling. The dollar fell sharply on November 7th after mid-ranking Chinese officials, not actually responsible for foreign-exchange policy, made remarks that were seized upon by already jittery markets. A Chinese parliamentarian called for his country to diversify its reserves out of “weak” currencies like the dollar and another official suggested that the dollar's status as a reserve currency was “shaky”. The greenback reached $2.10 against the pound and a new record of $1.47 against the euro, before recovering slightly (see chart). A widely traded index, which tracks the dollar's value against six major currencies, also fell to a new low.

The sliding dollar, along with record losses from General Motors, the threat of $100-a-barrel oil and more bad news from the mortgage industry, spooked Wall Street. On November 7th the Dow Jones Industrial Average fell by 2.6% and the S&P 500 index by almost 3%. To add to the worries, Nicolas Sarkozy, France's president, ramped up the political rhetoric on a visit to Washington. Alarmed that the weak dollar boosts America's competitiveness relative to Europe's, he told Congress that George Bush's administration needed to do something about the dollar or risk an “economic war”. Wall Street seers wondered whether official intervention to prop up the dollar was on the cards.

A true dollar crisis has long been one of the more frightening possibilities for the world economy. If foreign investors suddenly abandon America's currency and the dollar collapses, financial markets could crash while the plunging currency constrains the Federal Reserve's ability to cut interest rates. That fear is exacerbated by rising concerns about higher crude oil and food prices.

For now, the dollar nightmare is still unlikely. The currency's decline is neither surprising nor, at least until this week, alarmingly rapid. The gaping current-account deficit and interest-rate differentials between America and other big economies point to a weaker currency. The Fed has cut short-term interest rates by 0.75 percentage points in the past two months. Given the scale of the credit mess and rising fears of recession, expectations are growing that the central bank will cut rates once again when its rate-setting committee next meets on December 11th. Elsewhere, central bankers have stood pat or tightened. The Reserve Bank of Australia raised short-term rates to 6.75% on November 6th, citing inflationary pressure. The European Central Bank and the Bank of England met as *The Economist* went to press on November 8th. Both were expected to keep short-term rates on hold, at 4% and 5.75% respectively.

If cyclical considerations point to a weaker dollar, the most recent nervousness seems to be driven more by structural worries. Judging by the dollar's slump in the wake of the Chinese officials' comments, investors are fretting that central banks in emerging economies will abandon the ailing greenback. In the short term at least, that fear is easily exaggerated. The share of global foreign-exchange reserves held in dollars has fallen in recent years, but only gradually. Central banks are unlikely to accelerate a dollar rout by making dramatic changes in their reserve portfolios. That said, many long-standing dollar bulwarks are looking weaker. Many countries that link their currencies to the dollar, from Arab oil exporters to China, face inflationary pressure. As the greenback slumps, these countries have ever-stronger domestic reasons to allow their currencies to rise.

So far, the dollar's decline has caused little alarm among American policymakers. There is scant sign that

the depreciation has aggravated price pressures. And inflation expectations, though up slightly, have not soared. Instead, the weaker currency, along with strong growth abroad, has boosted exports, helping to support output growth and unwind external imbalances faster than many thought possible. America's current-account deficit fell to 5.5% of GDP in the second quarter, from a peak of 7% at the end of 2005. For all the official talk of a “strong dollar”, most American policymakers have lost little sleep over the sliding greenback. A dramatic fall in the dollar, however, would be a different story. If this week's ructions are a sign of things to come, the weak dollar could become a big headache.

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Economics focus

Buying off the opposition

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From The Economist print edition

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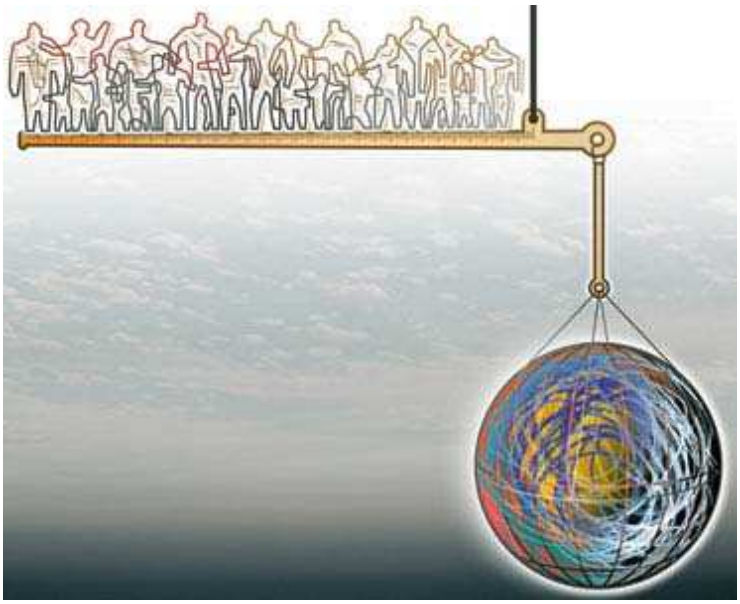

New ideas to shore up support for open markets

Get article background

AFTER months of impasse, America's trade policy may be inching forward. As *The Economist* went to press, the Democrat-controlled Congress looked set to pass a free-trade deal with Peru. Though small beer economically, it is symbolically important. George Bush's administration hopes other bilateral deals will follow, as a new bipartisan consensus on trade develops.

Alas, that seems unlikely. Listen to the Democratic presidential candidates and it becomes clear that the Peru vote is likely to be an outlier rather than a harbinger: they all want to "revisit" existing trade deals and are against an agreement with South Korea, the biggest negotiated by the Bush team. Trade wonks reckon the Peru vote is a cynical ploy that will allow Congress to block other trade deals without being branded globophobes.

Polls suggest that voters are becoming more, not less, sceptical of trade. According to a new one by the Pew Research Centre, the share of Americans who believe that trade is good for their country has plunged from 78% in 2002 to 59%, the lowest proportion among the 47 countries included in the survey. Nor are the concerns confined to Democrats. A recent *Wall Street Journal* poll of Republicans suggested that trade sceptics outweighed trade supporters by almost two to one (59% versus 32%).

Alarmed by these trends, centrist thinkers from both parties are searching for new ways to convince Americans that turning inwards is a bad idea. The most ambitious proposals have been championed by Matthew Slaughter, a former member of Mr Bush's Council of Economic Advisers, and now a professor at Dartmouth College. In an article earlier this year in *Foreign Affairs*, written with Kenneth Scheve of Yale University, Mr Slaughter called for a "New Deal" on globalisation.

Today's protectionist pressures, they claimed, stemmed from Americans' unhappiness over stagnant living standards. Globalisation may or may not be the cause of this stagnation, but people think it is. Thus the only way to keep trade barriers down is to boost ordinary people's incomes by cutting their taxes and raising levies on the rich. They target the payroll tax, a 15% levy on earnings up to $97,500 which is mainly meant to fund public pensions. They want to scrap payroll taxes entirely for the poorest half of workers and lift them on richer workers. That would be a huge redistribution, worth some $250 billion a

year.

The logic of such a “New Deal” weakens on closer inspection. Economists, as Mr Slaughter admits, are unsure what role freer trade—rather than, say, technological innovation—has played in widening income inequality. And if the economic rationale is tenuous, so, too, is the political one. Even if some workers see a lower tax bill, what is to stop them still opposing freer trade?

Help for the losers

More promising approaches concentrate on reducing the pain of economic dislocation. Making health insurance more portable is one route. Another is to overhaul the system of Trade Adjustment Assistance (TAA). Since 1962 America has offered extra unemployment benefits and training to manufacturing workers who lose their jobs because of foreign competition. The scheme is widely criticised. Its premise that involuntary job loss thanks to trade deserves more generous treatment than involuntary job loss thanks to, say, technical innovation is unfair. Its focus on extending unemployment insurance deters recipients from finding a new job. And, at less than $1 billion a year, TAA is too small to make a political difference.

One idea is to eliminate the artificial link to trade so that all dislocated workers can benefit. Another is to refocus America's overall system of unemployment insurance away from assistance for temporary job loss and towards helping those who suffer long-term wage loss. Robert LaLonde of the University of Chicago points out that the biggest losers from structural change—whether because of trade or technology—are middle-aged workers who have had a long tenure with one employer. Workers who lose their jobs after 20 years with one firm see wage losses 30 percentage points bigger than those who have been with a firm less than a year.

Helping these workers ought to be a priority. One possibility is retraining. But Mr LaLonde points out that for many middle-aged workers even extensive investment in retraining is unlikely to yield returns that close the wage gap. Another approach is wage insurance, where the government tops up the earnings of a dislocated worker forced into a lower-paying job.

Wage insurance is not a new idea. Several economists have proposed plans that would top up half the difference between old and new wages for two years. Today's TAA includes a modest scheme for people over 50. But Mr LaLonde argues that wage insurance must last longer to be effective. Replacing half the difference in earnings for a person of 40 for two years, he points out, offsets only 5% of that worker's likely lifetime earnings loss. More generous wage insurance could be paid for by refocusing America's existing $30 billion system of unemployment insurance. Jeffrey Kling at the Brookings Institution has proposed such a scheme (see article).

Are these ideas politically feasible? Not at the moment. The Bush team recently threatened to veto congressional Democrats' far more modest plans to expand TAA to service-sector workers whose jobs are outsourced. Under pressure from the unions, the Democrats, in turn, are loth to consider any restructuring of America's overall unemployment benefits. If America is to build a bipartisan consensus for open markets, politicians on both sides must do more to explain the benefits of a dynamic economy. They must also become less blinkered in dealing with the consequences of dislocation.

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Award: Philip Coggan

Nov 8th 2007

Philip Coggan, our Buttonwood columnist and capital-markets editor, was voted Investment Journalist of the Year (National Newspapers) at the State Street Institutional Press Awards this week.

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Intelligence and genetics

The nature of nurture

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Breastfeeding may or may not make children more intelligent. It all depends on their genes

Corbis

FEW scientific fields are as fraught with risk as that of research into human intelligence. The two questions that arise over and over again are “is it a result of nature or nurture?” and “to the extent it is nature, does race make a difference?”

Making stupid comments about the second question can be a career-killing move, as James Watson, a co-discoverer of the structure of DNA, recently found. He suggested that he was “inherently gloomy about the prospect of Africa” because “all our social policies are based on the fact that their intelligence is the same as ours [presumably he meant white people]—whereas all the testing says not really”. Such remarks are not merely offensive, they are scientifically weird. If the term race has any useful scientific meaning, then Africa, the continent where modern humanity began, is the most racially diverse place on the planet. The resulting hoo-ha caused Dr Watson to be eased out of the chancellorship of Cold Spring Harbor Laboratory, near New York, where he had worked for almost 40 years.

Fortunately, the study of links between intelligence and genetics has some wiser practitioners than Dr Watson. One of them, Terrie Moffitt, of King's College, London, has just supervised a project investigating the first perennial question—the relative importance of nature and nurture. The result, published this week in the *Proceedings of the National Academy of Sciences*, neatly illustrates how complex the subject really is. It also shows how the hoary old thesis and antithesis of genetics and upbringing combine in a most intriguing synthesis.

Suck it and see

Dr Moffitt's team (the actual work was led by her colleague, Avshalom Caspi) looked at the effect on intelligence of breastfeeding, but in a genetic context. Several studies in the past have shown that breastfed children are more intelligent, by about six IQ points, than those given baby formulas—an open-and-shut case, it might appear, of nurture trumping nature.

Dr Caspi and Dr Moffitt, however, were not so sure. They suspected the involvement of a gene called *FADS2*. This regulates the metabolism of a group of molecules called long-chain polyunsaturated fatty acids. These are important for the growth of nerve cells and are abundant in human milk but generally absent from formulas. *FADS2* comes in two varieties, known as C and G, and the researchers wondered if these two varieties interacted differently with breast milk.

To find out, they drew on data from two groups of people, one in New Zealand and one in Britain. Each of these groups is an annual cohort (in other words, their members were all born in the same twelve-month period) established for just this sort of long-term medical investigation. Data have been collected on the members of each for years (the New Zealanders were born between April 1972 and March 1973; the Brits in 1994 and 1995). Indeed, Dr Moffitt has already used the New Zealand group to show how a violent family upbringing and different versions of another neurologically important gene interact to produce more and less violent people.

What Dr Caspi and Dr Moffitt found was that the increase in intelligence associated with breastfeeding only happened to people who had inherited at least one copy of the C version of *FADS2*. (Most genes are present as two copies, one inherited from the mother and one from the father.) The effect did not depend on the social classes or IQs of the parents, nor on the birthweight of the child in question (low birthweight has been linked to lower IQ). And the difference in IQ was preserved into adulthood.

Only about 10% of the population is double-G, but what is curious about this result is that the G version of the gene has survived at all. If intelligence is valuable, the C version might be expected to have become universal. Indeed, this is the nub of the nurturists' argument. Natural selection should have pushed intelligence genes as far as they will go, so all variation should be environmental. That it is not suggests there is some unknown countervailing advantage—at least in reproductive terms—to being less than averagely bright.

It is a nice irony, given the traditional association of the naturist position with eugenic arguments, that if variation in intelligence really is caused by underlying genetic variation, then the dull are as evolutionarily fit as the clever. But that is the logical conclusion.

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Cosmic rays

They came from outer space

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A 40-year-old mystery is solved

SMALLER than an atom, they arrive with the energy of a tennis ball served by a champion. When they hit the atmosphere they create showers of daughter particles that zap mountaineers and people in aeroplanes. And no one knows where they come from—nor how, in apparent defiance of the laws of physics, they get to this planet in the first place.

Actually, that last sentence is no longer true. The super-particles in question are a particular type of high-energy cosmic ray and fittingly, given their extreme properties, their origin has now been worked out by a team of 444 researchers from 17 countries, using the biggest piece of scientific apparatus on Earth—the Pierre Auger observatory, which occupies 3,000 square kilometres of western Argentina.

Ordinary cosmic rays are puny things. Indeed, they are not really “cosmic” at all. They originate from various events (supernovae and so on) within the Milky Way galaxy that is home to the Earth. A few, however, are real whoppers—the products of events far more powerful than occur in the Milky Way. These are the tennis-ball equivalents and their existence is a puzzle.

Two puzzles, in fact. The first is: what created them? The second is: how did they get to Earth at such speed?

One hypothesis about their creation is that they are the result of stars being sucked into giant black holes. A second is that they come from colliding galaxies. A third is that they are caused by the collapse of massive but invisible relics from the beginning of the universe. All those events would be powerful enough, but all tend to happen a long way away. And that is where the second puzzle comes in.

In 1966 Kenneth Greisen, Vadim Kuzmin and Georgiy Zatsepin showed that high-energy charged particles (cosmic rays are mostly atomic nuclei, and thus positively charged) should be slowed by collisions with the photons of the cosmic microwave background (radiation left over from the Big Bang that permeates all space). This would bring them below a well-defined speed limit. Yet that limit is regularly exceeded. So, either the laws of physics are wrongly understood, or the super-rays are coming from close by, even if not from the Milky Way itself.

To find answers to these questions, the team trawled through the data that have accumulated since the Pierre Auger observatory began operating three years ago. The observatory, which is named after the physicist who discovered the showers caused by cosmic rays, has 1,600 detectors on the ground to record the arrival of such cascades and 24 telescopes pointing at the sky to locate the flashes of light produced by the collisions that create them.

So far, it has recorded a million or so showers. Around 80 of these were caused by cosmic rays more energetic than theory allows. The collaborators whittled these down to the 27 biggest events, so that there would be no ambiguity. They then decided to test the first, and easiest, hypothesis: that energetic cosmic rays are caused by hungry black holes. They did this by taking a peek at an astronomers' catalogue of 318 active galaxies located within 300m light years of Earth.

An active galaxy is a star system with a humongous black hole at its centre. Such black holes regularly chomp up stars, and that produces a lot of radiation. Only the 318 in question, however, are close enough to the Milky Way for the predicted galactic speed limit not to have been imposed (300m light years may sound a long way, but it is a short hop on the cosmic scale).

As the team report in this week's *Science*, all 27 of the cosmic rays they looked at did, indeed, come from the direction of galaxies in the catalogue. Both mysteries thus seem to have been solved. High-energy cosmic rays are caused by black holes consuming stars. And the laws of physics do not have to be torn up after all.

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The Urban Challenge

And the winner is...

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This pimped-up Chevrolet Tahoe is now, officially, the cleverest car in the world. It was the winner of the $2m first prize in the Urban Challenge, a competition held on November 3rd. The challenge, issued by America's Defence Advanced Research Projects Agency, was to design a robot car capable of negotiating urban streets and normal traffic. Although the streets in question were part of an old air-force base in southern California and the “normal” traffic was driven by professional stunt drivers, the test was nevertheless fairly realistic. Boss, as the Tahoe was dubbed by the engineers from Carnegie Mellon University who fitted it with the necessary controls and software, managed to travel the 88km (55 mile) course at an average speed of 22kph without hitting anything and without too many infractions of California's traffic regulations.

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Extrasolar planets

The famous five

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Five planets orbiting a distant star form a real alien solar system

FINDING planets has become commonplace. A new one is unearthed, so to speak, every couple of weeks. But only occasionally is more than one found orbiting any particular star. That is probably not because most solar systems contain only one planet, but rather because it is hard to spot several at once. The signal from the largest tends to overwhelm the others. Which is why the announcement on November 6th by Geoff Marcy of the University of California, Berkeley, and his colleagues that they have identified a system with at least five planets is especially pleasing. At last astronomers have something that they can realistically compare with the eight-planet system that includes the Earth.

The star at the centre of the system in question is 55 Cancri A, a yellow dwarf similar to the sun that lies 40 light years away. Dr Marcy has been looking for wobbles in its position that betray the presence of planets as they tug at it.

Since stars are considerably more massive than planets, such wobbles are small and hard to see directly. Instead, Dr Marcy and others like him look for changes that the wobbles cause in the wavelength of the light from the star. These changes (the result of the Doppler effect—familiar when a siren changes pitch as a fire engine passes by) are much easier to detect than the wobbles themselves, and researchers can thus plot them out as a curve.

So far, so good. But when more than one planet is tugging at a star, deciphering the meaning of the wobble is complicated. To do so, astronomers resort to Fourier analysis, a mathematical technique that allows them to break a complex curve into a set of simple ones called sine waves. In a solar system, each planet has its own sine wave. Big planets close to a star have big effects and orbit quickly. They thus have sine waves with large amplitudes and short wavelengths, both of which make them easy to see. However, smaller planets and those farther from the star take longer to notice. Small planets' waves have small amplitudes, so you can pick the signal from the noise only after several orbits. Distant planets have long orbits and therefore long wavelengths, and you cannot do the analysis properly until you have seen at least one orbit.

Fortunately, Dr Marcy has been looking for a long time. Every month for the past 18 years, he has tuned in to the signal coming from 55 Cancri A. Gradually, the separate sine waves have become visible. The dominant signal, corresponding to a planet with about the same mass as Jupiter but which orbits 55 Cancri A more closely than Mercury orbits the sun, was detected in 1996. Two further sine waves emerged in 2002, corresponding to one planet that has the mass of Saturn and is also orbiting more closely than Mercury, and another with four times the mass of Jupiter that is located in what would be Jupiter's orbit. A fourth object, which has more than ten times the mass of Earth and is the nearest to the star yet found, was noticed by another team in 2004.

The fifth, just announced, is of special interest because it orbits 55 Cancri A at a distance which suggests that, if water is present (and Dr Marcy thinks it probably is), it will be in its liquid form. Sadly, the planet probably does not have the sort of surface on which life could have evolved. Dr Marcy suspects that his new discovery, which has about 45 times the mass of the Earth, is composed of a rocky core surrounded by a thick envelope of hydrogen and helium gas. Details of the discovery will be published in a forthcoming issue of the *Astrophysical Journal*.

Finding five planets in a solar system other than the Earth's represents a record, and is all the more impressive because many astronomers thought it would not be possible to disentangle so many signals. Whether a sixth is lurking around 55 Cancri A, only time (and Fourier) will tell.

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Palaeontology

A hop, a skip and a jump

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Birds first flew by taking off from the ground, not gliding between trees

WHEN *Archaeopteryx*, a feathered skeleton that was seemingly half dinosaur and half bird, turned up in 1862—three years after the publication of “The Origin of Species”—the origin of birds became a subject of raging debate among palaeontologists. Suggestions that they were the direct descendants of theropod dinosaurs (a group of bipedal meat-eaters that include *Allosaurus*, *Velociraptor* and *Tyrannosaurus*) caused quite a flap. Today, most researchers agree that birds are, indeed, a branch of the Dinosauria. How they made the transition from the land to the sky, though, has yet to be agreed. But a paper in this week's *Current Biology*, by Christopher Glen and Michael Bennett of the University of Queensland, makes a strong case that they did it by jumping.

Considering the diversity of life on Earth, flight is surprisingly rare. It has evolved only four times: among the insects about 300m years ago, the pterosaurs (230m), the birds (150m) and the bats (50m). That suggests it is a hard trick to pull off. For birds, there is general agreement that feathers came before flight. Fossils from north-eastern China show animals that had feathers but clearly could not have flown, as well as ones that look like proper birds. The best guesses are that feathers evolved either for insulation (as fur did in mammals) or for display, and that natural selection took advantage by turning them into a means of transport.

There are two broad schools of thought about what happened next. One argues that birds' immediate ancestors lived in trees. Members of this school think that powered flight developed as a natural extension of gliding (such controlled falling is used as a way of travelling from tree to tree by several arboreal species today). Gliding itself developed because of the lift provided by feathered forearms.

The alternative is that flight evolved on the ground. Some researchers who belong to this school of thought suggest that the power provided by flapping protowings may have given their owners an edge in the pursuit of prey. Others hypothesise that feathery forearms helped animals steer and stabilise themselves.

Unfortunately, behaviour does not fossilise, so it looked as though the question might never be answered. But Dr Glen, a palaeobiologist, and Dr Bennett, a biomechanic, think they have worked out how to do so. Their crucial observation is that in modern birds the curvature of the third toe (which carries a lot of weight during walking and climbing) varies with species' lifestyles. Birds that spend lots of time climbing around on the trunks of trees have dramatically curved third toes. Those that hop around on branches have mildly curved ones. Those that forage mainly on the ground have the least curved of all.

The two researchers compared these observations with their findings for the bird-like dinosaurs and dinosaur-like birds of China. They noticed that the toes of both feathered dinosaurs and of the earliest flying birds were similar to those of modern birds that spend most of their time on the ground. Flight, in other words, came before birds took to the trees. They are not fallen angels, but risen reptiles.

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America's population

A blended people

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Over the next few decades the strongest force shaping American culture may well be Mexican

Mongrels, Bastards, Orphans, and Vagabonds: Mexican Immigration and the Future of Race in America
By Gregory Rodriguez

Pantheon; 336 pages; $26.95

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IN 1519 a group of Spanish soldiers who had been sent to explore Mexico heard an extraordinary rumour. A sailor, Gonzalo Guerrero, had drifted there on a wrecked ship eight years earlier and was living among the Indians. He had married an Indian woman, with whom he had raised three children, and was tattooed and pierced. Odder still, he intended to stay put. Hernán Cortés, the leader of the expedition, was furious. “It will never do to leave him here,” he scowled.

What Cortés took to be a slight against Spanish civilisation, Gregory Rodriguez hails as a vision of America's future. Guerrero was the first Mexican settler and his children were the first mixed-race Mexicans. But only narrowly: Cortés himself soon took an Indian lover, as did many of his men. Gradually Spaniards and Indians (and later blacks) blended to create a mongrel nation. Mexico became a counterpoint to the caste society that developed in its northern neighbour. Then it began to permeate and change that society.

By 2001 Latinos, most of them Mexicans or descended from Mexicans, had become the second-biggest

ethnic group in America. This worried African-Americans, who were thus relegated to third place. It also alarmed some whites, who felt that Latinos were failing to conform to American mores. In an influential book “Who Are We?” published in 2004, Samuel Huntington, a Harvard University professor, argued that Mexicans threatened Anglo-Protestant traditions. “Mongrels, Bastards, Orphans, and Vagabonds” is a much shrewder, less paranoid work. Yet, in some ways, it reaches a similar conclusion.

Victory in the Mexican-American war in the late 1840s led to the first big influx of Mexicans to the United States. Perhaps 100,000 were absorbed as their territory was annexed. That outraged American nativists. William Wick, a congressman from Indiana, said he did “not want any mixed races in our Union, nor men of any colour except white, unless they be slaves”. In a clumsy way, Wick had identified the problem with Mexicans: how would they fit into a system that drew a sharp distinction between blacks and whites?

This has remained a puzzle ever since. It complicated attempts to segregate the races in the early 20th century. One Texas drugstore clerk explained that Mexicans, unlike blacks, were allowed to drink at the soda fountain. But if they wanted a table they would be seated apart from whites. In the 1960s and 1970s Mexicans' uncertain status bedevilled attempts to create a civil-rights movement as potent as the black one was.

The other problem with Mexicans is that they retained ties to the mother country. Or, at least, some did. In 1897, a group of Mexican-Americans in El Paso refused to observe Mexico's independence day, explaining that it meant nothing to them. The local Spanish newspaper condemned them, calling them “*Agringados*” (Americanised). Dolores del Rio, a Hollywood star, said fiercely in 1928: “Never will I become an American citizen. Never!”

Yet most Mexicans did become American—a transition symbolised, for many, by the loss of the mother tongue. Even in the ghettos the march of English was relentless. New arrivals spoke mostly Spanish, their children were bilingual and their grandchildren spoke almost no Spanish at all. Along the route to monolingualism there were some delightful byways. By the mid-20th century a man driving to a meeting with the mayor would *parkear* his *carro* before climbing the steps of *sitijol*.

If such adaptations are not always obvious it is because Mexicans, unlike Africans, Italians or Germans, never stopped coming to America in large numbers. Immigration took off in the 1920s when some 1,000 people a day were arriving in Juárez with the intention of entering the United States. Farmers quickly came to depend on workers from the south, and lobbied the government to let more in.

The flow briefly reversed in the 1930s, when economic depression and raids by immigration officials pushed perhaps 400,000 people—many of them American citizens—south of the border. But it soon resumed. Despite frequent attempts to staunch immigration from the south or divert it into legal channels, the supply of Mexican labour has continued to find ways to get in touch with American demand. The only thing that changes is the proportion of migrants who come to America legally.

At times this fascinating story is too neatly told. Even in the old South, Anglophone America was not as strictly divided by race as Mr Rodriguez supposes. Nor have Mexicans proved more enlightened than others. In many cities, the sharpest ethnic divide is between blacks and Latinos. Yet the conclusion of this excellent book is surely right. In the next few decades one of the strongest forces shaping American culture—perhaps the strongest force—will be Mexican. With his pierced lip and odd-looking children, the stubborn Guerrero knew where the future lay.

Mongrels, Bastards, Orphans, and Vagabonds: Mexican Immigration and the Future of Race in America
By Gregory Rodriguez.
Pantheon; 336 pages; $26.95

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Warfare

A dozen European years of war

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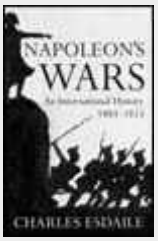
PUBLISHERS cannot have enough of books from serious historians about the “whys” of war. Why do they start? Why do they last? What makes a peace fragile? The past is one place to look for answers. Charles Esdaile, a lecturer at the University of Liverpool, is too good a scholar to make easy comparisons between then and now. But the “whys” of war run through his masterly account of the Napoleonic wars, a 12-year conflict between France and Europe's other powers that killed almost 2m soldiers.

There are more thrilling ways to tell the story. You can recite Napoleon's lightning campaigns at the head of France's armies or re-tell a romantic and legendary life. You can preach, depending on where you stand, on behalf of a thwarted liberator or against a destructive genius.

Those are not Mr Esdaile's ways. In a politico-military survey of extraordinary scope and detail, he tells us what he believes caused the conflict, what it was about and why it lasted so long despite, as it seemed, frequent chances for peace. Neither battlefield chronicle nor biography in disguise, “Napoleon's Wars” is explanatory history of high order.

Napoleon's Wars: An International History, 1803-1815
By Charles Esdaile



Allen Lane; 621 pages; £30

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Historians date the Napoleonic wars from 1803, when Britain declared war on France after the brief Peace of Amiens. In fact the conflict was a continuation of the French revolutionary wars in which Napoleon, besting the Austrians in Italy, took a leading part from 1796. Mr Esdaile recounts how Napoleon came to power in 1799, mastering France and then Europe. Britain commanded the seas after Trafalgar in 1805. But France held the continent thanks to victories on land against the Austrians, Prussians and Russians. Setbacks in Spain, which Napoleon's troops entered in 1807, and disaster in Russia in 1812, led to eventual defeat at Waterloo.

Mr Esdaile makes that familiar story fresh in three connected ways. He shows how marginal-looking conflicts—for example over the Romanian lands, Sweden, Portugal, Canada—ignited larger ones or divided potential allies. He reminds us that defeating Napoleon was never sure. Europe's armies had first to learn from their own failures and their rulers had to make common cause. Both things happened, but late in the day. Above all, he stresses that the conflict was not ideological but geopolitical. It was about the balance of power, disturbed for a century by Ottoman decline, Russian and Prussian growth and Franco-British rivalries.

Few if any of France's foes were fighting for regime change in Paris. At many times they would have settled with Napoleon—had he settled with them. But they could never trust him to settle, and the wars went on. His two strongest opponents, Britain and Russia, resisted him, in Mr Esdaile's view, not because he was a revolutionary, a republican or the head of an upstart dynasty. They fought him because as long as he controlled France, there was no telling where France would stop.

At this point Napoleon's character enters Mr Esdaile's intricate geopolitical equations. Without accepting a great-man theory of history, he thinks the Napoleonic wars deserve their name. Europe's powers would have fought over their differences without Napoleon. But the scale and ferocity of conflict was due in large part to the emperor's “aggression, egomania and lust for power”.

Mr Esdaile's book reflects a vast and varied range of recent scholarship. But he never leaves his geopolitical story for long. War started, he believes, because Europe was not in balance. It dragged on because Napoleon could not be trusted. Peace came—and lasted until later generations forgot the horror of the alternative.

Napoleon's Wars: An International History, 1803-1815.
By Charles Esdaile.
Allen Lane; 621 pages; £30

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America's constitution

If it ain't broke

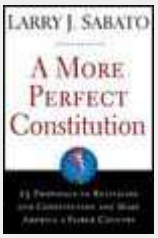
Nov 8th 2007
From The Economist print edition

LAST month America's foremost Third Amendment rights group celebrated two centuries of defending Americans' constitutional right not to have soldiers quartered in their homes. “Keep the fat hands of soldiers out of America's larders!” read the T-shirts and bumper stickers. At least, according to the *Onion*, a spoof newspaper.

But perhaps the satirists were making a useful point. Some parts of America's venerated constitution do sound out of date. The framers met in 1787 to craft a compromise that might keep together a fissile federation of states beset by powerful external enemies. The document's worst flaw—allowing slavery to persist—was corrected in 1865. But the essential framework within which America is governed has barely been tinkered with since Thomas Jefferson's day. Larry Sabato, a top-notch politics professor at the University of Virginia, thinks it is time to give it an overhaul.

Most of his gripes are reasonable. The Senate is horribly undemocratic. Because each state elects exactly two senators, thinly-peopled rural states wield disproportionate influence. If the 26 smallest ones stick together, they have a majority of votes despite representing only 17% of Americans. Mr Sabato wants to restore some fairness by giving extra senators to big states.

A More Perfect Constitution: 23 Proposals to Revitalize Our Constitution and Make America a Fairer Country
By Larry J. Sabato



Walker; 352 pages; $25.95

Buy it at
Amazon.com
Amazon.co.uk

The House of Representatives has different afflictions. Members are elected to such short terms (two years) that they never stop campaigning. Incumbents of both parties bust sinews to stifle electoral competition. They gerrymander shamelessly, drawing up electoral districts that are either safely Democratic or safely Republican. They use the advantages of office to raise heaps more cash than their challengers. They are nearly always re-elected, depriving the House of fresh talent. Mr Sabato wants to ban gerrymandering (except racial gerrymandering), to establish term limits and to more than double the size of the House so that each member will know a smaller area better.

And he is just warming up. Mr Sabato wants a president with more power to veto wasteful spending but less to make war. He wants to end the antiquated bar on non-native-born Americans becoming president (a source of irritation to Arnold Schwarzenegger, California's Austrian-born governor). He wants to replace the current maximum of two four-year presidential terms with a fiddly arrangement involving one six-year term which can be extended by two years.

Next, Mr Sabato would shake up the Supreme Court by ending life tenure and setting a compulsory retirement age for judges. Then he moves swiftly on to the way political parties pick presidential candidates. To avoid the current race by states to hold their primaries earlier than each other—which makes the campaign far longer than it needs to be—Mr Sabato would decide by lottery which states may hold their primaries on which dates.

Not content with rejigging the building blocks of government, Mr Sabato also wants to lay constitutional obligations on individual citizens. All able-bodied young Americans should have to do two years of national service, he argues, either in the army or pursuing some other public good.

This book contains many sound ideas, such as the bar on gerrymandering, and some less sound, such as national service. But Mr Sabato does not want us to pick one or two of his suggestions. He wants to call a second constitutional convention to rethink the entire document bar the Bill of Rights. The current approach of piecemeal amendments is not working, he says. Very few pass, and many that are proposed are foolish: think of the amendment to ban flag-burning. No, what America needs is a grand meeting of clever and high-minded people to draw up a new, improved constitution better suited to the 21st

century.

The arguments against this are old, but worth repeating. Despite its age, the American constitution has worked better than any other constitution in any country, as Mr Sabato admits. The men who wrote it were giants. Granted, their work could be improved on. And tinkering with it, one amendment at a time, is slow. But that is the point. Changing a constitution should be difficult. And the risks of a major re-write are huge. What is the chance that a fresh crew of framers will be as wise as the original ones? Sometimes radicalism is best kept in the classroom.

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By Larry J. Sabato.
Walker; 352 pages; $25.95

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Jazz

Chasin' the Trane

Nov 8th 2007
From The Economist print edition

THE vaulting-off point of Ben Ratliff's biography is the belief that John Coltrane, tenor and soprano saxophonist, was not only a towering performer but also the last major figure in the evolution of jazz. Indeed, jazz seemed to lose its way after he died in 1967, aged 40.

Mr Ratliff, jazz critic for the *New York Times*, leaves Coltrane's private life largely alone. For a jazzman, he kicked drugs and drink pretty early and afterwards led a remarkably suburban life. Rather, it is a biography of the Coltrane sound: an urgent, non-vibrato intensity that the saxophonist constantly reinvented—unlike most jazz musicians who professionally settle into a comfortable groove or who reinvent themselves at most once or twice in their lives.

Coltrane: The Story of a Sound
By Ben Ratliff

Farrar, Straus and Giroux; 272 pages; $24.
Faber and Faber; £16.99

Buy it at
Amazon.com
Amazon.co.uk

The Coltrane sound, unlike Charlie Parker's, did not spring fully formed on the listening public. Coltrane was something of a late and hesitant starter. He was nearly 30 when an assuredness settled in and he was able to harness his phenomenal technique and mastery of jazz lore to his urgent driven style, soloing in riffles and cascades of scales and arpeggios. The late 1950s were exceptional years for jazz. Though rock-and-roll had not yet swamped it, jazz big bands were no longer commercially viable. The fizz was in small clubs where quartets and quintets played live, and Coltrane was lucky to be hired by two superb bandleaders and teachers, Miles Davis and Thelonious Monk.

But for Coltrane, all this was the beginning of the journey, not the end. At first he attempted to cram ever more into the Western harmony of jazz tunes: an ever-denser architecture of chord changes. Before long, even his technique exhausted those possibilities. He began to abandon harmony, turning to modes that seemed to speak of older things: African and native-American history, Eastern spiritual power, universal love. Then even the modes started to go. Many of his audiences lost him as he encouraged younger, more wayward players into his regular group; then his regular musicians went. Asked by a Japanese reporter in 1966 what he wished to be in ten years' time, Coltrane replied simply that he wanted to be a saint.

And that, in many circles, is what after his death he became. To the cult's adherents, Coltrane's music by the end had ascended to a plane of intensity that was close to godliness, and could not be questioned. A Church of St John Coltrane exists in San Francisco: the founders first claimed that the musician was an incarnation of god, but later demoted him to sainthood.

Mr Ratliff's biography is particularly good in exploring Coltrane's afterlife. Coltrane's musical presence remains so powerful that even today jazz musicians, particularly horn players, are influenced by it—unless they define themselves in sharp contradistinction to it. But Mr Ratliff investigates the charge that, if jazz as an evolutionary folk form died with Coltrane, it was he who killed it: pulling down its harmonic structure, destroying its sense of swing and knocking the pleasure and fun out of it in an ecstasy of self-indulgence. The late Robert Lowell, an American poet, spoke of “the monotony of the sublime”; this could be applied to Coltrane.

On the charge of destroying jazz, Mr Ratliff finds Coltrane not guilty. But it is hard to escape a sense, both among those jazz players who followed him out to the wilder edges or those who struggled to bring the idiom back to its earlier harmonic forms, that jazz has been chasing its tail ever since he died. Had Coltrane's life not been cut short, where would his sound have chased next?

Coltrane: The Story of a Sound.
By Ben Ratliff.

Farrar, Straus and Giroux; 272 pages; $24.
Faber and Faber; £16.99

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Berlin in New York

New York ist ein Berliner

Nov 8th 2007 | NEW YORK
From The Economist print edition

New York's Carnegie Hall is importing highlights of Berlin's culture

NEW YORK is in the middle of a culture fest celebrating Berlin, a 17-day marathon of music, film, architecture, literature and photography that began on November 2nd. “Berlin In Lights” is largely the brainchild of Sir Clive Gillinson, a former managing director of the London Symphony Orchestra who became executive and artistic director of Carnegie Hall in July 2005. Determined to make the New York concert hall more international, he is initiating a series of cultural festivals celebrating cities, nations or artistic movements. Berlin is the first of these.

A visit by the Berlin Philharmonic Orchestra, under its principal conductor Sir Simon Rattle (another Briton) had been planned for some time. Much taken by the extraordinary transformation of Berlin since reunification—the city thrives through culture and politics; there is hardly any business or finance—Sir Clive decided to expand that visit into a full-blown festival. He got an enthusiastic response from other New York institutions.

Berlin and New York have sizeable mutual admiration societies but, until recently, post-war Berlin could only dream of being in the same league of creative effervescence as New York. Now, in partnership with the American Academy in Berlin, Carnegie Hall has put together a crowd of seminars—on literature, the visual arts, film-making—inviting stars such as Volker Schlöndorff and Florian Henckel von Donnersmarck, both Oscar-winning German directors. The Goethe-Institut and the German consulate-general are showing photographs, the Museum of Modern Art is screening films about Berlin and the P.S.1 Contemporary Art Centre is screening the 13 episodes and epilogue of Rainer Werner Fassbinder's television epic “Berlin Alexanderplatz” in 14 separate rooms.

The Berlin Philharmonic Orchestra, extending its visit to eight days, will be performing Gustav Mahler's last three major works as well as music by Thomas Adès, Magnus Lindberg and György Kurtag, three contemporary composers. In addition, various chamber ensembles made up of Philharmonic musicians are playing both at Carnegie and at “neighbourhood concerts” in the city's five boroughs. The most innovative of the Philharmonic's offerings will be the performances on November 17th and 18th at the United Palace Theatre in Washington Heights of Igor Stravinsky's “The Rite of Spring”, danced by kids from state schools who have been trained for just eight weeks. To those who think that the result will be shambolic, the organisers retort that the experiment worked well with children—including refugees—from state schools in Berlin.

“Berlin In Lights” is not comprehensive: there is no theatre and little dance. A festival that gets too big loses its charm, says Sir Clive: “We would like to capture people's imagination and incite them to explore new horizons.”

The audience at some of the shows—a performance by Max Raabe and the Palast Orchestra of songs from the 1920s and 1930s, Ute Lemper, a German chanteuse specialising in Kurt Weill, in cabaret—were made up largely from what one participant described as the geriatric intelligentsia from the Upper West Side. As many of them have German- or Austrian-Jewish origins, they have a loving, knowledgeable relationship with German culture. One critic hissed that Ms Lemper was a poor copy of Lotte Lenya, Weill's wife, whom she had seen perform in the 1940s. Sir Clive hopes that concerts by the Nomad SoundSystem, a Berlin band performing western dance music and North African melodies, and concerts by Berlin's Turkish and Kurdish communities may bring in a younger crowd.

Carnegie Hall does not reveal the themes of its next festival, but Sir Clive is planning to organise at least two a year. He has already received a letter from the French consul-general and an inquiry from the Italian representative in New York about staging a fest for their cultures. But a city or a country is only one of many options for festivals of the future. “We want to do ideas,” says Sir Clive.

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Sculpture

Canova's sensuous curves

Nov 8th 2007 | ROME
From The Economist print edition

The sculptor's nymphs on display in Rome's Galleria Borghese

THE first things you see on entering an exhibition dedicated to Antonio Canova at Rome's Galleria Borghese are two bottoms, as smooth and alluringly rounded as plums. You are looking at a familiar work—the sculptor's "Three Graces" normally at the Hermitage in St Petersburg—but from an unaccustomed angle. To either side, there are other, equally provocative rumps belonging to recumbent nymphs on loan from the Victoria and Albert museum in London and the New York Metropolitan. The curators, you feel, are making a point.

There are much better sculptors than Canova. You have only to look at the works of Bernini, mingled with his in this exhibition, to see that he never got near that master's depiction of movement or expression. But Canova had a singular gift for making stone seem pneumatic. His most famous work is of Napoleon's sister, Pauline, as a semi-naked Venus Victrix. She was the wife of Prince Camillo Borghese and the sculpture, which is normally on display in what was once the Borghese family's private art gallery, is the centrepiece of this show, open until February 3rd.

When Venus Victrix first went on display in the early 19th century, a contemporary recorded that "it excited such desire in the illustrious foreigners that they ran in crowds to admire it". The ultimate, scandal-inducing thrill was to view it by candlelight, which made it even more lifelike. But, just as striking as Canova's sinuous portrayal of Pauline, is his rendering of the mattress and cushions on which she reclines: seemingly just too plump to be marble.

Canova did most of his work in Rome and was a favourite of successive popes. His labours for the papacy eventually earned him the presidency of the Accademia di San Luca, the city's main cultural institution, a marquisate and a pension. Yet his subjects were mostly classical and pagan, and his skill with curves and volume could produce works of intense eroticism. He was probably the most blatantly sensual of pre-20th-century sculptors, a Helmut Newton of his day, but with the focus kept on softness and milky smoothness.

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Khun Sa

Nov 8th 2007
From The Economist print edition

Khun Sa (Chang Chi-fu), master of the heroin trade, died on October 26th, aged 73

AP

Get article background

PREPARATIONS for his surrender, on January 7th 1996, were something to see. At Ho Mong camp in the Shan state—a town of 6,000 people, idyllically surrounded by forested hills and poppy fields, in the remotest part of northern Myanmar—hundreds of rifles had been arranged on long wooden racks. Behind them, thousands of rounds of ammunition were laid out on the ground. Pride of place went to four Soviet-made SAM missiles, labelled with a white placard. Round these, appreciatively, strolled officers from the Burmese army; and with them walked Khun Sa, smiling and chatting.

He never showed any other face that day, as he apparently handed over his life's work to the authorities. From a settee on a stage, as evening fell, he watched the sun set over the mountains. He then returned to his villa, nicknamed the “White House”, with the neat gardens where he grew orchids and the entertaining rooms where he liked to watch folk dancing and belt out Taiwanese songs, and slept.

Not only the weapons were being surrendered. Ten thousand soldiers, many of them children grabbed from neighbouring hill villages, were abandoning their uniforms and rifles to go home. The refineries, too, were closing down. Not that you might have noticed; but deeper into the forest, well away from human habitation, you might have stumbled on a shack with a canvas roof, beside a creek, with a vile smell of chemicals still hanging round it, and recognised this as one of the props of a heroin empire that stretched as far as Brussels and Brooklyn.

The Americans put $2m on Khun Sa's head, for good reason. Over the two decades of his unrivalled hegemony in the Shan state, from 1974 to 1994, the share of New York street heroin coming from the Golden Triangle—the northern parts of Myanmar, Thailand and Laos—rose from 5% to 80%. It was 90% pure, “the best in the business”, according to the Drug Enforcement Administration. And Khun Sa, the DEA thought, had 45% of that trade.

Prince Prosperous

It had been a struggle. The Kuomintang, the Chinese Nationalist forces, had lured him into opium in the 1950s when he trained with them along the Chinese border. Soldiering and drug-dabbling seemed ideal

for him: a chain-smoking country lad of little education, but with a way of making friends and a streak of uncompromising violence. His *nom de guerre*, Khun Sa, meant “Prince Prosperous”. Through the 1960s, mostly in the Shan state, he gathered men and changed armies as it suited him in the wars for drug-routes and territory. By 1974 he had brushed off the Laotians who were ambushing his mule-trains, and by 1982 he had escaped the Thai air force, which was bombing his camps on the border. At his peak he commanded some 20,000 men, with better weapons than the Burmese army.

The Shan people were his first priority, he always said. His force was first called the Shan United Army, and after 1991 he headed the Shan State Restoration Council, holding his village “parliaments” at a table over a beer. The Shan themselves thought him just another drug warlord, and half-Chinese anyway. But he claimed to be fighting a war to liberate them from the Burmese, and told the world they grew opium only to pay for clothes and rice. In 1977 he offered the Americans his entire opium crop: buy it, he challenged them, take it off the market, and give me the money for my people. The Americans, instead, indicted him for trafficking.

Khun Sa had most impressive international contacts—in Thailand, Yunnan, Macao, and the murkier docks of Hong Kong and Singapore. Some thought he was merely a frontman for bigger Chinese drug interests. And indeed, when the heroin had left his territory, he often did not know who his customers were. Once the DEA, by 1995, had managed to break the link between Khun Sa and his terrified brokers, he could keep no track of the money he was owed; his revenues dried up, and his men began to mutiny. Surrender to the Burmese authorities suddenly seemed a good idea.

In public, they called him names and said they wanted to hang him; but he controlled Myanmar's most lucrative export, and had long co-opted local soldiers and police. When American congressmen were watching, the Burmese army would make feeble attempts to take him out, or would organise bonfires of heroin that were largely stones and grass. When the world's back was turned, the generals made arrangements. The ceremonial surrender of 1996 gave Khun Sa government protection and a promise that he would not be extradited. Hence his smiles. In exchange, the Burmese army obtained a chance to infiltrate his empire properly.

Khun Sa had always said that there were plenty more like him. If he was arrested, others would pile in, as long as the “drug-crazed West” was desperate for what the East could grow. He himself was happy to retire to a Rangoon mansion with four young Shan wives, describing himself as “a commercial real-estate agent with a foot in the construction industry”. He ran a ruby mine and made investments. But his main business, missing his chutzpah and charisma, moved away to Afghanistan, where it blooms.

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Overview

Nov 8th 2007
From The Economist print edition

The **dollar** tumbled on the foreign-exchange markets on November 7th on worries that China might invest more of its huge reserves—worth $1.4 trillion—in other currencies. The euro climbed above $1.47 and sterling rose above $2.10.

The sharp fall in the dollar caused both **gold** and **oil** prices to hit new highs. Gold futures touched their highest level in nearly 28 years on November 7th. The price of a barrel of West Texas Intermediate crude oil reached its highest ever in nominal terms, above $98.

Labour productivity in **America's** non-farm businesses grew at an annual rate of 4.9% in the third quarter, the fastest for four years. Unit labour costs fell by 0.2% after rising by 2.2% in the second quarter.

In September industrial output in **Britain** fell by 0.5%, to be 0.3% lower than a year earlier. It rose by 0.3% in Germany, leaving it 6.1% higher than a year before.

Australia's central bank raised its benchmark interest rate from 6.5% to 6.75% because of worries over rising prices. The bank said that inflation was likely to exceed 3% early next year. **Indonesia's** central bank kept its main interest rate at 8.25%.

The outlook for rich economies is continuing to deteriorate, according to *The Economist*'s **monthly poll of forecasters**. The panel has again lowered its predictions for GDP growth in 2008 for several of the 13 countries covered, as well as the euro area, although it has raised its forecast for Australia.

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Output, prices and jobs

Nov 8th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+2.6 Q3	+3.9	+2.0	+2.1	+1.9 Sep	+2.8 Sep	+2.1	+2.8	4.7 Oct
Japan	+1.6 Q2	−1.2	+2.0	+1.8	+0.8 Sep	−0.2 Sep	+0.6	nil	4.0 Sep
China	+11.5 Q3	na	+11.5	+10.0	+18.9 Sep	+6.2 Sep	+1.5	+4.5	9.5 2006
Britain	+3.3 Q3	+3.2	+3.0	+2.1	−0.3 Sep	+1.8 Sep§	+2.4	+2.2	5.4 Aug††
Canada	+2.5 Q2	+3.6	+2.6	+2.3	+0.2 Aug	+2.5 Sep	+0.7	+2.2	5.8 Oct
Euro area	+2.5 Q2	+1.3	+2.6	+2.0	+4.3 Aug	+2.6 Oct	+1.6	+2.0	7.3 Sep
Austria	+3.5 Q2	+3.5	+3.2	+2.6	+7.5 Aug	+2.1 Sep	+1.4	+1.9	4.2 Oct
Belgium	+2.5 Q3	+1.6	+2.6	+2.0	+4.1 Aug	+2.2 Oct	+1.2	+1.7	11.4 Sep‡‡
France	+1.3 Q2	+1.2	+1.8	+1.9	+2.6 Aug	+1.5 Sep	+1.2	+1.4	8.0 Jul
Germany	+2.5 Q2	+1.0	+2.6	+2.1	+6.1 Sep	+2.4 Oct	+1.1	+2.1	8.7 Oct
Greece	+4.1 Q2	na	+3.8	+3.0	−0.4 Aug	+2.9 Sep	+2.9	+2.6	8.4 Jun
Italy	+1.8 Q2	+0.5	+1.7	+1.4	+3.0 Aug	+2.1 Oct	+1.8	+1.9	6.0 Q2
Netherlands	+2.6 Q2	+1.2	+2.5	+2.2	+2.2 Aug	+1.6 Oct	+1.1	+1.7	4.4 Sep††
Spain	+4.0 Q2	+3.8	+3.7	+2.7	+0.6 Sep	+2.7 Sep	+2.9	+2.6	8.0 Sep
Czech Republic	+6.0 Q2	+5.7	+5.7	+4.5	+5.5 Aug	+4.0 Oct	+1.3	+2.6	6.2 Sep
Denmark	+0.6 Q2	−1.6	+1.6	+1.7	−0.6 Sep	+1.2 Sep	+1.5	+1.6	3.1 Sep
Hungary	+1.2 Q2	+0.2	+2.1	+3.0	+12.2 Aug	+6.4 Sep	+5.9	+7.8	7.2 Sep††
Norway	+3.9 Q2	+3.5	+3.3	+2.6	−0.6 Aug	−0.3 Sep	+2.6	+0.4	2.5 Aug††
Poland	+6.4 Q2	na	+6.5	+5.2	+5.2 Sep	+2.3 Sep	+1.6	+2.1	11.6 Sep‡‡
Russia	+7.8 Q2	na	+7.2	+6.4	+3.0 Sep	+9.5 Sep	+9.5	+8.6	6.0 Sep‡‡
Sweden	+3.5 Q2	+3.7	+3.4	+3.0	+1.1 Sep	+2.2 Sep	+1.5	+1.8	4.2 Sep‡‡
Switzerland	+2.8 Q2	+3.0	+2.6	+2.0	+9.8 Q2	+1.2 Oct	+0.3	+0.6	2.6 Oct‡‡
Turkey	+3.9 Q2	na	+5.2	+5.1	+6.1 Aug	+7.0 Oct	+10.0	+8.5	8.9 Q2‡‡
Australia	+4.3 Q2	+3.8	+4.2	+3.7	+4.6 Q2	+1.9 Q3	+3.9	+2.4	4.3 Oct
Hong Kong	+6.6 Q2	+7.8	+6.1	+4.7	−2.3 Q2	+1.6 Sep	+2.1	+2.0	4.1 Sep††
India	+9.3 Q2	na	+8.0	+7.9	+10.7 Aug	+6.4 Sep	+6.8	+5.9	7.6 2006
Indonesia	+6.3 Q2	na	+6.2	+6.1	+4.3 Aug	+6.9 Oct	+6.3	+6.3	9.8 Feb
Malaysia	+5.7 Q2	na	+6.0	+5.8	+3.4 Sep	+1.8 Sep	+3.3	+2.1	3.4 Q2
Pakistan	+7.0 2007**	na	+6.4	+5.9	+9.3 Aug	+8.4 Sep	+8.7	+6.9	6.2 2006††
Singapore	+9.4 Q3	+6.4	+7.4	+4.9	−2.8 Sep	+2.7 Sep	+0.4	+1.8	1.7 Q3
South Korea	+5.2 Q3	+1.4	+5.0	+4.7	+0.3 Sep	+3.0 Oct	+2.2	+2.5	3.2 Sep
Taiwan	+5.1 Q2	na	+4.3	+4.4	+8.1 Sep	+5.3 Oct	−1.2	+1.1	3.9 Sep
Thailand	+4.4 Q2	+5.2	+4.5	+4.8	+10.2 Aug	+2.5 Oct	+2.8	+2.0	1.2 Jul
Argentina	+8.7 Q2	+8.8	+8.0	+5.9	+0.1 Aug	+8.4 Oct	+10.5	+8.9	8.5 Q2‡‡
Brazil	+5.4 Q2	+3.2	+4.7	+4.5	+5.6 Sep	+4.1 Oct	+3.3	+3.6	9.0 Sep‡‡
Chile	+6.1 Q2	+6.5	+5.8	+5.2	+1.3 Sep	+6.5 Oct	+2.1	+3.9	7.7 Sep†††‡
Colombia	+6.9 Q2	+4.4	+6.7	+5.6	+7.7 Aug	+5.2 Oct	+4.2	+5.5	10.6 Sep‡‡
Mexico	+2.8 Q2	+5.3	+3.0	+2.9	+2.6 Aug	+3.8 Sep	+4.1	+4.0	3.9 Sep‡‡
Venezuela	+8.9 Q2	na	+6.9	+4.8	+14.1 Jul	+17.2 Oct	+15.5	+17.8	8.4 Q2‡‡
Egypt	+7.2 Q2	na	+7.0	+7.3	+7.5 2007	+7.5 Oct	+11.8	+8.8	9.0 Q3‡‡
Israel	+4.4 Q2	+6.1	+5.3	+4.4	+2.3 Aug	+1.4 Sep	+1.3	+0.4	7.6 Q2
Saudi Arabia	+4.3 2006	na	+4.8	+5.6	na	+4.9 Sep	+2.5	+3.4	na
South Africa	+5.0 Q2	+4.5	+4.7	+5.1	+5.1 Aug	+7.2 Sep	+5.3	+6.0	25.5 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+7.6 Q2	na	+7.9	+5.8	+5.8 Sep	+8.5 Oct	+3.7	+6.0	5.5 Aug
Finland	+4.7 Q2	+3.8	+4.6	+2.5	+1.1 Sep	+2.6 Sep	+1.5	+2.7	6.9 Sep
Iceland	+2.5 Q2	+9.1	+1.8	+2.1	+7.6 2006	+4.5 Oct	+7.2	+4.9	0.8 Sep‡‡
Ireland	+5.4 Q2	−5.5	+4.7	+3.5	+10.0 Aug	+4.6 Sep	+4.0	+4.7	4.7 Sep
Latvia	+11.1 Q2	na	+10.0	+7.5	+3.0 Aug	+11.4 Sep	+6.0	+9.6	5.5 Aug
Lithuania	+10.8 Q3	+10.0	+7.8	+6.9	na	+7.1 Sep	+3.2	+5.4	2.8 Sep
Luxembourg	+5.3 Q2	+5.3	+5.0	+3.4	−1.0 Jul	+2.1 Sep	+2.4	+2.1	4.2 Aug‡‡
New Zealand	+3.8 Q2	+3.4	+3.1	+2.9	+0.5 Q2	+1.8 Q3	+3.5	+2.5	3.5 Q3
Peru	+6.5 Aug	na	+7.3	+6.3	+7.0 Aug	+3.1 Oct	+1.9	+1.5	8.0 Aug‡‡
Philippines	+7.5 Q2	+7.1	+6.8	+5.5	−4.7 Aug	+2.7 Oct	+5.4	+2.8	7.8 Q3‡‡
Portugal	+1.6 Q2	+1.9	+1.8	+2.0	+1.4 Sep	+2.1 Sep	+3.0	+2.4	7.9 Q2‡‡
Slovakia	+9.4 Q2	na	+8.0	+6.0	+5.7 Aug	+2.8 Sep	+4.6	+2.7	8.3 Sep
Slovenia	+5.9 Q2	na	+5.6	+4.6	+10.1 Aug	+5.1 Oct	+1.5	+3.2	7.4 Aug‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 3.9% in Sep. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Nov 8th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Oct 30th	Nov 6th*	% change on one month	% change on one year
Dollar index				
All items	214.9	217.1	+1.8	+16.3
Food	194.5	196.7	+2.5	+30.2
Industrials				
All	241.2	243.6	+1.2	+4.7
Nfa†	174.0	175.8	+6.1	+28.2
Metals	277.9	280.6	−0.4	−1.5
Sterling index				
All items	157.6	157.7	−0.8	+6.4
Euro index				
All items	137.8	138.0	−1.4	+2.3
Gold				
$ per oz	784.35	823.30	+11.6	+31.5
West Texas Intermediate				
$ per barrel	90.00	96.43	+20.1	+63.4

*Provisional †Non-food agriculturals.

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The Economist poll of forecasters, November averages

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From The Economist print edition

The Economist poll of forecasters, November averages (previous month's, if changed)

	Real GDP, % change				Consumer prices % increase		Current account % of GDP	
	Low/high range		average					
	2007	2008	2007	2008	2007	2008	2007	2008
Australia	3.9/4.4	3.2/5.3	4.2 (4.1)	3.7 (3.5)	2.4	2.9 (2.8)	-5.7	-5.5 (-5.4)
Belgium	2.4/2.8	1.8/2.3	2.6	2.0 (2.1)	1.7	1.8	2.4 (2.2)	2.4 (2.1)
Britain	2.8/3.2	1.6/2.7	3.0 (2.9)	2.1	2.2 (2.3)	2.0	-3.3 (-3.2)	-3.1
Canada	2.2/2.9	1.7/2.9	2.6 (2.5)	2.3 (2.5)	2.2	2.0 (2.2)	1.7 (1.8)	1.3 (1.5)
France	1.7/2.0	1.5/2.1	1.8	1.9 (2.0)	1.4	1.8 (1.7)	-1.1 (-1.2)	-1.0 (-1.1)
Germany	2.4/2.8	1.9/2.4	2.6 (2.7)	2.1 (2.2)	2.1 (2.0)	1.7 (1.6)	5.6 (5.4)	5.5 (5.3)
Italy	1.3/2.0	1.0/1.8	1.7 (1.8)	1.4 (1.5)	1.9	1.9	-2.5 (-2.4)	-2.3 (-2.2)
Japan	1.8/2.3	1.5/2.5	2.0	1.8 (1.9)	nil	0.4 (0.3)	4.7 (4.6)	4.6 (4.5)
Netherlands	2.4/2.7	1.8/2.4	2.5	2.2	1.7 (1.6)	1.9	7.8 (7.9)	7.3 (7.5)
Spain	3.3/4.0	2.0/3.0	3.7	2.7	2.6 (2.7)	2.7 (2.8)	-9.1 (-9.0)	-8.6 (-8.5)
Sweden	3.2/4.0	2.7/3.5	3.4	3.0	1.8	2.1	7.1 (6.9)	6.7 (6.6)
Switzerland	2.4/2.8	1.7/2.3	2.6	2.0 (2.1)	0.6 (0.7)	1.2 (1.1)	16.3 (16.4)	15.4 (16.0)
United States	1.8/2.2	1.2/2.6	2.0	2.1 (2.2)	2.8	2.3 (2.4)	-5.5 (-5.6)	-5.1 (-5.2)
Euro area	2.5/2.8	1.7/2.2	2.6	2.0 (2.1)	2.0	2.0	0.1 (0.2)	0.3

Sources: ABN AMRO, BNP Paribas, Citigroup, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Scotiabank, UBS

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Trade, exchange rates, budget balances and interest rates

Nov 8th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Nov 7th	Currency units, per $ year ago	Budget balance % of GDP 2007†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−810.7 Aug	−793.2 Q2	−5.5	–	–	−1.2	4.86	4.33
Japan	+98.1 Aug	+197.5 Aug	+4.7	113	118	−2.6	0.73	1.57
China	+253.4 Sep	+249.9 2006	+10.9	7.44	7.87	0.2	4.17	4.87
Britain	−160.4 Aug	−86.6 Q2	−3.3	0.48	0.53	−3.0	6.22	4.86
Canada	+48.5 Aug	+21.9 Q2	+1.7	0.92	1.13	1.0	3.96	4.28
Euro area	+42.1 Aug	+30.4 Aug	+0.1	0.68	0.78	−0.9	4.59	4.15
Austria	+1.5 Aug	+12.3 Q2	+2.9	0.68	0.78	−0.5	4.59	4.25
Belgium	+17.6 Aug	+13.0 Jun	+2.4	0.68	0.78	−0.1	4.65	4.29
France	−40.8 Aug	−25.8 Aug	−1.1	0.68	0.78	−2.4	4.59	4.26
Germany	+258.7 Sep	+196.9 Aug	+5.6	0.68	0.78	−0.4	4.59	4.15
Greece	−51.1 Aug	−40.9 Aug	−10.5	0.68	0.78	−2.5	4.59	4.46
Italy	−15.0 Aug	−51.4 Aug	−2.5	0.68	0.78	−2.5	4.59	4.48
Netherlands	+49.9 Aug	+53.5 Q2	+7.8	0.68	0.78	−0.6	4.59	4.25
Spain	−124.1 Aug	−125.1 Jul	−9.1	0.68	0.78	1.8	4.59	4.27
Czech Republic	+3.5 Sep	−5.9 Aug	−3.5	18.3	22.0	−3.9	3.62	4.54
Denmark	+4.2 Aug	+4.3 Aug	+1.9	5.08	5.84	3.8	4.80	4.25
Hungary	−1.7 Aug	−6.8 Q2	−5.2	173	205	−6.0	7.40	6.50
Norway	+54.5 Sep	+54.6 Q2	+14.3	5.30	6.46	18.9	5.70	4.81
Poland	−10.5 Aug	−14.6 Aug	−4.3	2.48	3.01	−2.0	5.26	5.62
Russia	+121.6 Aug	+73.5 Q3	+5.6	24.5	26.7	4.0	10.00	6.25
Sweden	+18.3 Sep	+29.7 Q2	+7.1	6.30	7.16	2.8	3.92	4.20
Switzerland	+11.1 Sep	+64.9 Q2	+16.3	1.13	1.25	0.3	2.75	2.81
Turkey	−56.9 Sep	−33.2 Aug	−7.3	1.18	1.46	−2.8	17.32	6.40‡
Australia	−13.6 Sep	−47.1 Q2	−5.7	1.07	1.30	1.4	7.11	6.19
Hong Kong	−21.1 Sep	+24.9 Q2	+9.8	7.77	7.78	1.9	3.81	3.44
India	−65.4 Sep	−9.7 Q2	−1.6	39.3	44.7	−3.3	7.29	8.23
Indonesia	+41.3 Sep	+11.0 Q2	+2.4	9,120	9,110	−1.7	8.20	6.53‡
Malaysia	+29.2 Sep	+27.6 Q2	+13.8	3.33	3.64	−3.2	3.62	4.70‡
Pakistan	−13.8 Sep	−7.1 Q2	−4.5	60.9	60.7	−4.6	9.76	9.84‡
Singapore	+38.5 Sep	+41.6 Q2	+27.4	1.44	1.56	0.3	2.50	2.84
South Korea	+19.7 Oct	+9.1 Sep	+0.4	906	935	0.4	5.34	5.42
Taiwan	+15.7 Oct	+28.3 Q2	+6.4	32.4	32.9	−2.0	2.60	2.84
Thailand	+10.7 Sep	+11.8 Sep	+3.6	34.0	36.8	−1.9	3.55	4.58
Argentina	+10.5 Sep	+7.4 Q2	+2.8	3.13	3.07	1.4	13.38	na
Brazil	+42.6 Oct	+9.0 Sep	+0.7	1.73	2.15	−1.8	11.18	6.16‡
Chile	+24.7 Oct	+8.3 Q2	+5.0	503	525	8.0	5.76	4.88‡
Colombia	−1.9 Aug	−4.8 Q2	−3.0	2,026	2,278	−0.2	8.69	6.04‡
Mexico	−1.2 Sep	−7.0 Q2	−0.6	10.7	10.9	nil	7.43	7.98
Venezuela	+23.8 Q2	+20.4 Q2	+7.7	2,147	2,989	−2.2	11.66	6.55‡
Egypt	−15.8 Q2	+2.7 Q2	+2.3	5.50	5.73	−5.5	6.01	5.37‡
Israel	−9.5 Sep	+7.8 Q2	+3.7	3.92	4.34	−0.5	4.18	5.07
Saudi Arabia	+146.6 2006	+98.9 2006	+23.8	3.74	3.75	19.1	4.82	na
South Africa	−11.0 Sep	−17.4 Q2	−6.3	6.47	7.33	0.5	10.70	8.15
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.1 Aug	−3.1 Aug	−14.7	10.7	12.3	3.1	5.17	na
Finland	+12.5 Aug	+12.6 Aug	+7.1	0.68	0.78	4.2	4.46	4.25
Iceland	−1.8 Oct	−3.7 Q2	−16.9	58.9	68.3	5.3	14.13	na
Ireland	+36.7 Aug	−10.5 Q2	−4.9	0.68	0.78	1.1	4.59	4.31
Latvia	−7.1 Aug	−6.3 Aug	−22.2	0.48	0.55	0.4	10.39	na
Lithuania	−6.5 Aug	−4.4 Aug	−14.5	2.35	2.71	−0.5	6.42	na
Luxembourg	−5.8 Aug	+4.6 Q2	na	0.68	0.78	0.3	4.59	na
New Zealand	−4.4 Sep	−9.2 Q2	−7.9	1.27	1.50	4.8	7.25	6.56
Peru	+8.6 Aug	+2.8 Q2	+1.9	3.00	3.22	0.5	5.00	na
Philippines	−4.1 Aug	+6.4 Jun	+6.4	43.3	49.9	−0.9	6.63	na
Portugal	−23.4 Jul	−18.1 Aug	−8.5	0.68	0.78	−3.3	4.59	4.39
Slovakia	−2.9 Aug	−4.2 Jun	−4.3	22.6	28.3	−2.9	4.11	4.60
Slovenia	−2.4 Aug	−1.4 Aug	−3.2	0.68	0.78	−0.5	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Nov 8th 2007
From The Economist print edition

Markets

	Index Nov 7th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,300.0	–4.5	+6.7	+6.7
United States (S&P 500)	1,475.6	–4.8	+4.0	+4.0
United States (NAScomp)	2,748.8	–3.9	+13.8	+13.8
Japan (Nikkei 225)	16,096.7	–3.8	–6.6	–1.7
Japan (Topix)	1,556.7	–3.9	–7.4	–2.5
China (SSEA)	5,879.8	–5.9	+108.9	+119.1
China (SSEB, $ terms)	369.3	–2.9	+170.7	+183.9
Britain (FTSE 100)	6,385.1	–5.0	+2.6	+10.3
Canada (S&P TSX)	14,118.2	–3.5	+9.4	+38.9
Euro area (FTSE Euro 100)	1,387.2	–2.4	+8.5	+20.7
Euro area (DJ STOXX 50)	4,400.3	–2.0	+6.8	+18.8
Austria (ATX)	4,644.4	–4.7	+4.1	+15.7
Belgium (Bel 20)	4,246.9	–4.4	–3.2	+7.6
France (CAC 40)	5,683.2	–2.8	+2.6	+14.1
Germany (DAX)*	7,799.6	–2.7	+18.2	+31.5
Greece (Athex Comp)	5,305.8	–0.5	+20.7	+34.3
Italy (S&P/MIB)	39,281.0	–3.0	–5.2	+5.4
Netherlands (AEX)	530.3	–3.2	+7.1	+19.1
Spain (Madrid SE)	1,716.1	–0.5	+10.4	+22.7
Czech Republic (PX)	1,871.4	–1.9	+17.8	+34.0
Denmark (OMXCB)	480.2	–1.3	+13.2	+25.9
Hungary (BUX)	27,042.5	–1.2	+8.8	+20.1
Norway (OSEAX)	599.8	+0.8	+19.4	+40.4
Poland (WIG)	59,953.2	–5.0	+18.9	+39.3
Russia (RTS, $ terms)	2,281.0	+2.6	+10.3	+18.7
Sweden (Aff.Gen)	361.7	–3.1	–1.0	+7.5
Switzerland (SMI)	8,703.2	–3.5	–0.9	+6.6
Turkey (ISE)	56,076.4	–2.7	+43.4	+72.7
Australia (All Ord.)	6,728.1	–0.8	+19.2	+39.4
Hong Kong (Hang Seng)	29,708.9	–5.2	+48.8	+49.0
India (BSE)	19,289.8	–2.8	+39.9	+57.6
Indonesia (JSX)	2,714.0	+2.7	+50.3	+48.2
Malaysia (KLSE)	1,413.9	nil	+29.0	+36.6
Pakistan (KSE)	13,500.6	–5.7	+34.5	+34.4
Singapore (STI)	3,673.0	–3.5	+23.0	+31.2
South Korea (KOSPI)	2,043.2	–1.0	+42.4	+46.2
Taiwan (TWI)	9,300.2	–4.2	+18.9	+19.7
Thailand (SET)	880.3	–3.0	+29.5	+37.8
Argentina (MERV)	2,298.8	–2.2	+10.0	+7.7
Brazil (BVSP)	63,500.0	–2.8	+42.8	+75.8
Chile (IGPA)	14,593.3	–4.9	+17.9	+24.7
Colombia (IGBC)	10,886.6	+2.4	–2.5	+7.8
Mexico (IPC)	29,582.2	–6.0	+11.8	+12.7
Venezuela (IBC)	39,077.1	–0.2	–25.2	+16.5
Egypt (Hermes)	82,535.9	–0.5	+34.7	+39.9
Israel (TA-100)	1,176.9	–1.0	+27.7	+37.2
Saudi Arabia (Tadawul)	9,058.6	+5.0	+14.2	+14.5
South Africa (JSE AS)	30,767.8	–1.8	+23.5	+34.6
Europe (FTSEurofirst 300)	1,543.6	–3.3	+4.0	+15.7
World, dev'd (MSCI)	1,630.3	–3.1	+9.9	+9.9
Emerging markets (MSCI)	1,303.3	–2.6	+42.8	+42.8
World, all (MSCI)	414.7	–3.0	+12.7	+12.7
World bonds (Citigroup)	727.0	+1.8	+10.4	+10.4
EMBI+ (JPMorgan)	429.7	–0.8	+5.5	+5.5
Hedge funds (HFRX)	1,361.3	–0.2	+6.7	+6.7
Volatility, US (VIX)	26.5	18.5	11.6	(levels)
CDSs, Eur (iTRAXX)†	47.0	+22.9	+101.6	+124.2
CDSs, N Am (CDX)†	79.3	+19.7	+137.2	+137.2
Carbon trading (EU ETS) €‡	21.7	–1.6	+19.3	+32.6

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank

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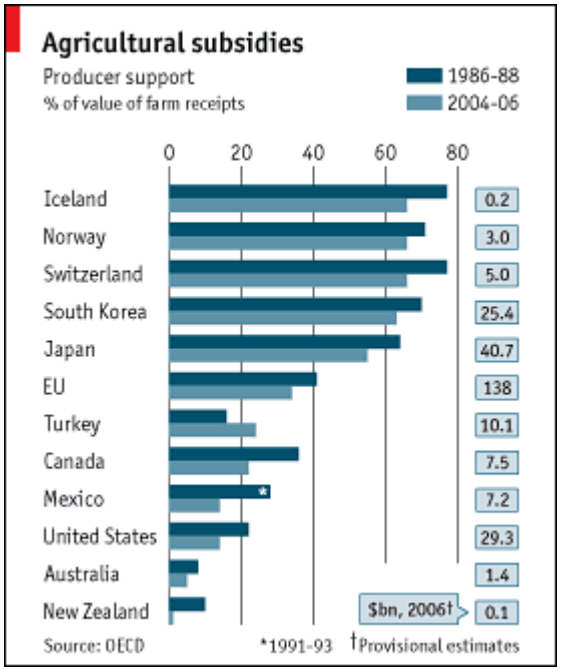
Agricultural subsidies

Nov 8th 2007
From The Economist print edition



Almost $268 billion was paid last year in subsidies to farmers in the 30 mainly rich countries of the OECD, down from $281 billion in 2005. This huge support, both directly from taxpayers and indirectly through higher prices paid by consumers, fell from 29% of total farm receipts to 27%. The drop was mainly because of higher world food prices, which reduced the need to prop up domestic prices, rather than changes in policy. Even so, crop and livestock prices in OECD countries were on average 21% higher than world market prices in 2006. The level of support varied widely, from 1% of farm receipts in New Zealand to more than 60% in Switzerland. In America it amounted to 11%, whereas in the EU it came to 32%.

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